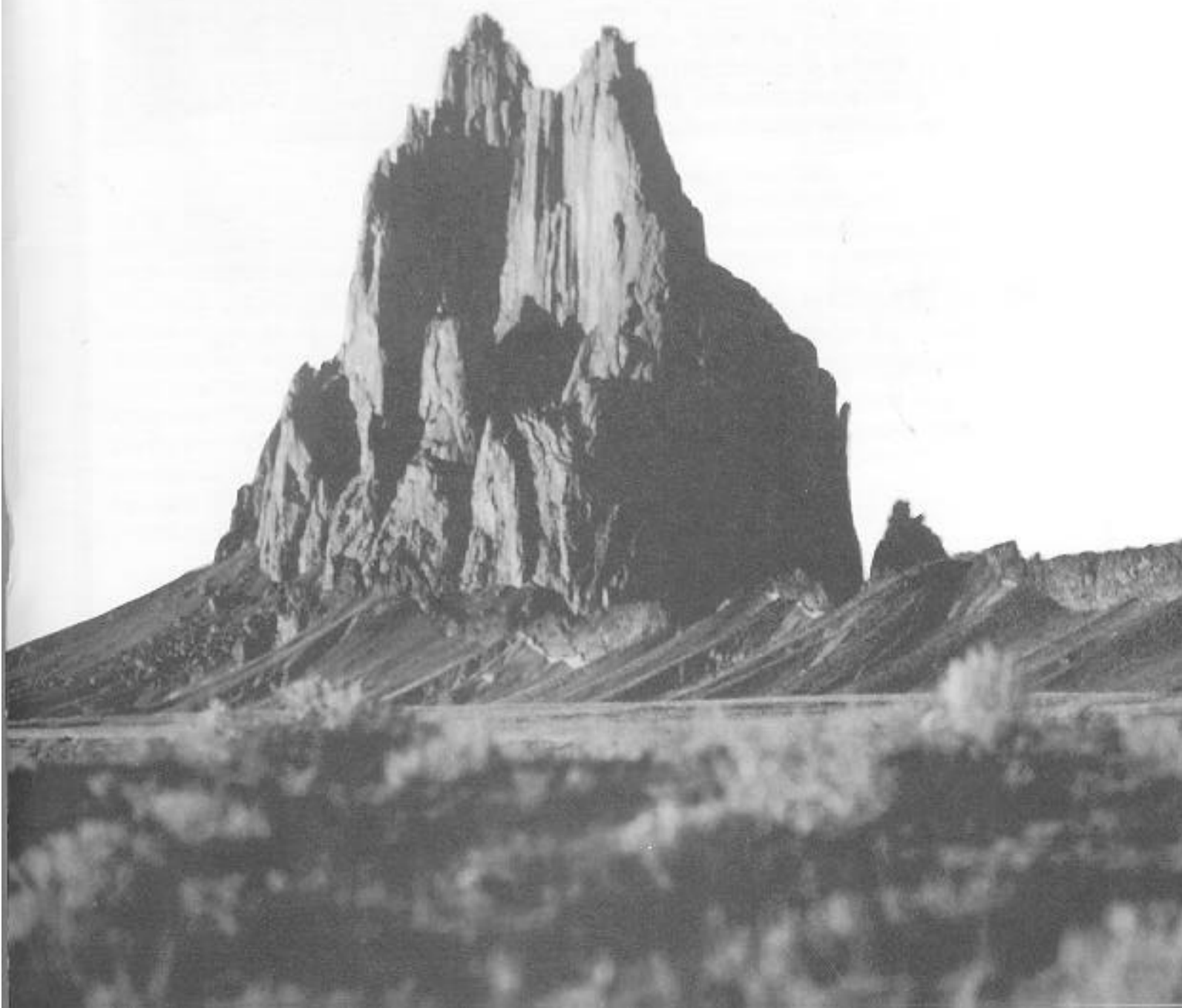




# Office of Inspector General Semiannual Report to the Congress

October 1, 1996 through  
March 31, 1997



# *Inspector General Vision Statement*

*"We are agents of positive change striving for continuous improvement in our Agency's management and program operations, and in our own offices."*

## *Mission*

*The Inspector General Act of 1978, as amended, requires the Inspector General to: (1) conduct and supervise audits and investigations relating to programs and operations in the Agency; (2) provide leadership and make recommendations designed to (i) promote economy, efficiency, and effectiveness and (ii) prevent and detect fraud and abuse in Agency programs and operations; and (3) fully inform the Agency Head and the Congress about problems and deficiencies identified by the Office of Inspector General relating to the administration of Agency programs and operations.*

## *Goals*

- ① Help EPA achieve its environmental goals by improving the performance and integrity of EPA programs and operations, by safeguarding and protecting the Agency's resources, and by clearly reporting the results of our work.
- ② Foster strong working relationships.
- ③ Operate at the highest performance level.

## *OIG Government Performance and Results Act Objective*

*Provide audit and investigative products and services, all of which can help EPA accomplish its mission.*

Cover Photo: Shiprock, New Mexico  
By Terrence Moore

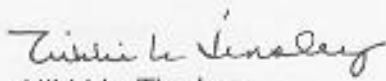
## Foreword



I am pleased to present this Semiannual Report to Congress for the period ended March 31, 1997. This has been a time of change and of defining or setting new directions, both within the Agency and the Office of Inspector General. During this six month period, we issued our strategic plan which defines our approach, links OIG goals and objectives to the Agency's environmental mission, and allocates OIG resources to high risk audit and investigative areas. This Semiannual Report to Congress has been reformatted to create a clearer relationship between the reporting requirements of the Inspector General Act and the OIG's strategic plan, mission, objectives and goals for assisting EPA attain its goals and objectives.

This report highlights some of our most significant audits, investigations and consultative activities in which we are working with Agency management to bring about meaningful improvements, changes and results. With the implementation of the Government Performance and Results Act, the atmosphere for change in the Agency has never been so encouraging. Attention to the need for strong management practices in the form of realistic planning, accountability, performance measurement and reporting of results is giving new meaning to role of the OIG and the value of its assistance and recommendations. Nowhere is this more obvious than in the Agency's reorganization to create an Office of the Chief Financial Officer along with a new Planning, Budgeting, Analysis and Accountability system. This is further supported, as discussed in this report, by the Agency's progress in improving the quality and reliability of its financial systems and information necessary to make better use of scientific and cost data in setting priorities, assessing accomplishments, and providing feedback for crucial decisions.

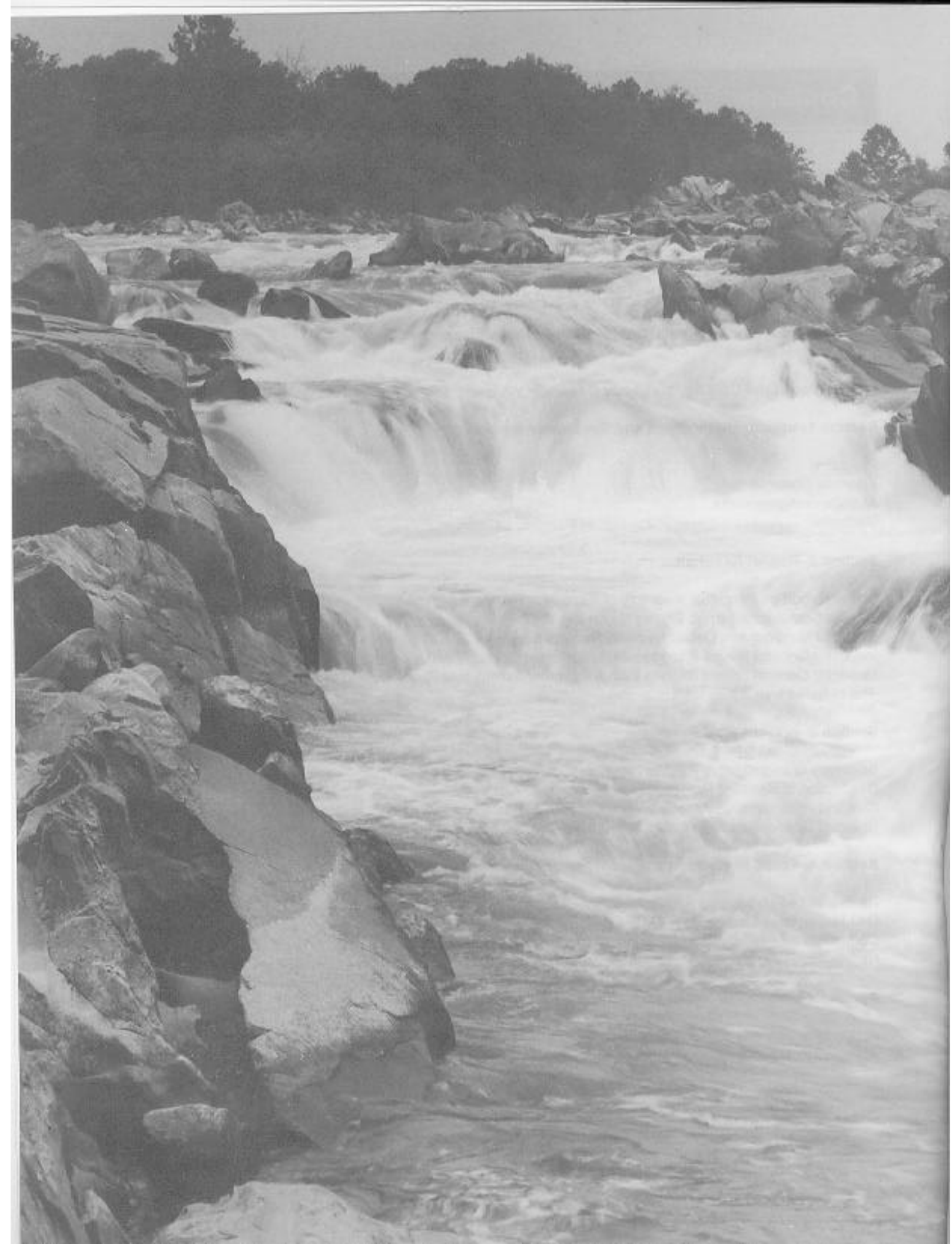
This fundamental commitment by the Administrator along with decisive action by Agency management is a potent formula to solve problems and leverage significant results. No one doubts that this is just a beginning, and much still needs to be done. I look forward to continuing to work with the Administrator, forging a partnership, to meet our greatest mutual challenges for a better environment.

  
Nikki L. Tinsley  
Acting Inspector General

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The complete text of selected audits is available through the EPA OIG internet home page. [http: // www.EPA.Gov/OIGearthlist397.htm](http://www.EPA.Gov/OIGearthlist397.htm)



# Executive Summary

## Section 1-- Significant Findings and Recommendations

### 1. Serious Environmental Data Quality Problems Impair Federal Facility Superfund Cleanups

EPA and Federal facilities lacked sufficient procedures to ensure that environmental laboratory data was of acceptable quality. Sharing information on poor performers and effective quality assurance systems could have helped avoid millions in expenditures and years of cleanup delays at the nine sites audited (page 10).

### 2. Pennsylvania Did Not Report Significant Clean Air Act Violators

Pennsylvania did not report numerous significant violators of the Clean Air Act to EPA and did not take aggressive enforcement action to bring all violating facilities into compliance. As a result, EPA's oversight of the State's enforcement program was hindered (page 12).

### 3. Radon and ENERGY STAR® Voluntary Programs Were Generally Effective

The Radon and ENERGY STAR® voluntary programs used good management practices and developed ways to estimate their environmental results. However, improvements in documenting the planning process, phasing out Agency involvement, ensuring logo integrity, and reporting accuracy will further enhance program effectiveness (page 14).

### 4. Federal Regulations Inadequately Protect Water Quality from Animal Waste

Federal regulations written in the 1970s have restricted EPA's ability to deal with concentrated animal feeding operations that produce millions of tons of animal waste per year and threaten water quality. North Carolina had to strengthen its regulatory program to handle animal waste disposal situations not adequately covered under Federal regulations (page 15).

### 5. RCRA Civil Penalties by States Were Inconsistent

There were inconsistent penalty policies and practices between states resulting in a wide variation in the methods of calculating and average size of penalties.

Also, states did not always adequately calculate or recover the economic benefit when assessing penalties

to deter noncompliance with RCRA (page 17).

### 6. Streamlining Hazardous Waste Reporting Will Improve Clarity and Ease of Reporting

The Biennial Report process for collecting hazardous waste data is complex and lengthy, thus increasing the potential for errors. The 1997 report does not include waste minimization or capacity planning data which limits its value (page 19).

### 7. Extramural Management Specialist Positions Were Beneficial But Not Well-Defined

The Extramural Management Specialist (EMS) position established by the Office of Research and Development (ORD) helped remove extramural management as a Federal Managers' Financial Integrity Act (FMFIA) material weakness. However, the EMS role was not well-defined and some Agency officials were unclear about its role, responsibilities, and benefits (page 20).

### 8. Superfund Oversight Costs Were Not Billed or Collected Timely

Region 5 did not promptly establish receivables, send initial billings, or follow-up on unpaid accounts to responsible parties for Superfund site oversight costs (page 21).

### 9. EPA Hindered U.S. Coast Guard's Ability to Recover Costs from Polluters

The Agency did not provide timely cost packages to the U.S. Coast Guard (USCG), thus delaying reimbursements and impeding USCG's ability to pursue cost recovery from oil spill polluters (page 23).

### 10. Substantial Progress Made in Financial Statement Reporting

During fiscal 1996, EPA continued to make substantial progress in improving its financial reporting systems and practices, resolving many issues that caused us to qualify or disclaim an opinion on prior years' financial statements. The issues preventing the Agency from receiving unqualified opinions on its fiscal 1996 financial statements should be resolved during fiscal 1997 (page 25).

### 11. Pesticides Reregistration Accomplishments Can Be More Reliably Reported

The fiscal 1996 financial statements for the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund) were fairly presented. However, the draft Overview needed to provide additional information and more

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accurately report on the Agency's progress in reregistering pesticides (page 27).

## **12. Idaho State Revolving Funds Not Used Timely**

Local demand for loans was not sufficient to use more than \$25 million available in Idaho's State Revolving Fund (SRF), and the State's SRF-related reporting systems were inadequate and contained a serious internal control weakness (page 29).

## **13. Nearly \$37 Million Questioned on Monterey, California, Project**

The Monterey Regional Water Pollution Control Agency, California, claimed \$35,360,324 of ineligible construction, engineering, administrative, and other costs for the design and construction of a regional wastewater treatment plant. An additional \$1,593,473 of unsupported costs were questioned (page 31).

## **14. Over \$35 Million Questioned on New York City Projects**

The City of New York claimed \$19,115,757 of ineligible construction, engineering, force account, and administrative expenses for construction of upgrades on two sewage treatment facilities. An additional \$16,320,786 of unsupported costs were questioned (page 32).

## **15. Almost \$9 Million Questioned on Baltimore, Maryland Project**

The City of Baltimore, Maryland, claimed \$1,333,847 of ineligible construction, engineering, administrative, and force account costs for modifications to a wastewater treatment plant. An additional \$7,665,732 of unsupported costs, including \$5,770,727 above the grant ceiling, were questioned (page 33).

## **16. \$7 Million Questioned on Los Angeles County Project**

The Los Angeles County Sanitation District claimed \$6,692,844 of ineligible construction, engineering, and equipment costs for portions of a wastewater treatment facility that was never placed into operation. An additional \$307,889 of unsupported costs were questioned (page 34).

## **Section 2--Report Resolution**

This section, required by the IG Act, reports on the status and results of Agency management actions to resolve audit reports. At the beginning of the semiannual period, there were 221 reports for which no management decision had been made. During the first half of fiscal

1997, the Office of Inspector General issued 228 new reports and closed 252. At the end of the reporting period, 197 reports remained in the Agency followup system for which no management decision had been made. Of the 197 reports, 111 reports remained in the Agency followup system for which no management decision was made within 6 months of issuance (page 36).

For the 126 reports closed that required agency action, EPA management disallowed \$ 8.2 million of questioned costs and agreed with our recommendations that \$ 5.6 million be put to better use (page 36). In addition, cost recoveries in current and prior periods included \$2.6 million in cash collections, and at least \$2.3 million in offsets against billings (page 3).

## **Section 3--Investigative Results**

During this semiannual reporting period, our investigative efforts resulted in two convictions and three indictments. Also, our investigative work led to \$2.9 million in fines and recoveries (page 42).

The Office of Grants and Debarment completed action on seven OIG-generated suspension and debarment cases during this reporting period, resulting in four suspensions and two debarments, one compliance agreements (page 47).

## **Section 4--Fraud Prevention and Management Improvements**

During this semiannual period, we reviewed three legislative and 38 regulatory items. Our most significant comments concerned contracts administration, including a Federal Acquisition Regulation case, and draft internal guidance (page 51).

The EPA Committee on Integrity and Management Improvement (CIMI), chaired by the Inspector General, published bulletins on Prospective, Outside, and Post-Employment, and Travel Bonuses (page 53).

Five new hotline cases were opened and five were closed during the reporting period. Of the closed cases, two resulted in environmental, prosecutive, or administrative corrective action (page 54).

# Profile of Activities and Results

**October 1, 1996 to March 31, 1997**

<b>Audit Operations (\$ in millions)</b> <b>OIG Managed Reviews:</b> <b>Reviews Performed by EPA, Independent Public Accountants and State Auditors</b>		<b>Audit Operations (\$ in millions)</b> <b>Other Reviews:</b> <b>Reviews Performed by Another Federal Agency or Single Audit Act Auditors</b>	
<b>Questioned Costs *</b>		<b>Questioned Costs *</b>	
- Total	\$159.3	- Total	\$ 1.9
- Federal	118.8	- Federal	1.9
<b>Recommended Efficiencies*</b>		<b>Recommended Efficiencies*</b>	
- Federal	\$ 0	- Federal	\$ 1.4
<b>Costs Disallowed to be Recovered</b>		<b>Costs Disallowed to be Recovered</b>	
- Federal	\$ 7.5	- Federal	0.7
<b>Costs Disallowed as Cost Efficiency</b>		<b>Costs Disallowed as Cost Efficiency</b>	
- Federal	\$ 4.1	- Federal	\$ 1.5
<b>Reports Issued - OIG Managed Reviews:</b>		<b>Reports Issued - Other Reviews:</b>	
- EPA Reviews Performed By OIG:	54	- EPA Reviews Performed by	
- EPA Reviews Performed by		Another Federal Agency:	132
Independent Public Accountants:	8	- Single Audit Act Reviews:	34
- EPA Reviews Performed by			
State Auditors:	0		
<b>Total</b>	<b>62</b>	<b>Total</b>	<b>166</b>
<b>Reports Resolved (Agreement by Agency officials to take satisfactory corrective action.) ***</b>		<b>Agency Recoveries - Recoveries from Audit Resolutions of Current and Prior Periods (cash collections or offsets to future payments.)**</b>	
	126		\$ 4.9

<b>Investigative Operations</b>		<b>Fraud Detection and Prevention Operations</b>	
<b>Fines and Recoveries (including civil)</b>	<b>\$2.9M</b>		
<b>Investigations Opened</b>	<b>84</b>	<b>Hotline Cases Opened</b>	<b>5</b>
<b>Investigations Closed</b>	<b>70</b>	<b>Hotline Cases Processed and Closed</b>	<b>5</b>
<b>Indictments of Persons or Firms</b>	<b>3</b>	<b>Personnel Security Investigations Adjudicated</b>	<b>397</b>
<b>Convictions of Persons or Firms</b>	<b>2</b>	<b>Legislative and Regulatory Items Reviewed</b>	<b>41</b>
<b>Administrative Actions Against EPA Employees/ Firms</b>	<b>24</b>		
<b>Civil Judgments</b>	<b>6</b>		

\* Questioned Costs and Recommended Efficiencies subject to change pending further review in the audit resolution process.

\*\* Information on recoveries from audit resolution is provided from EPA Financial Management Division and is unaudited.

\*\*\* Reports resolved are subject to change pending further review.



## Major Laws Administered by EPA

Statute	Provisions
Pollution Prevention Act	Provides that pollution should be prevented or reduced at the source, recycled safely when not preventable, treated safely when not preventable or recyclable, or disposed of in a safe manner.
Toxic Substances Control Act	Requires EPA notification of any new chemical prior to its manufacture and authorizes EPA to regulate its production, use, or disposal.
Federal Insecticide, Fungicide, and Rodenticide Act	Authorizes EPA to register all pesticides, specify the terms and conditions of their use, and remove unreasonable hazardous pesticides from the marketplace.
Federal Food, Drug and Cosmetic Act	Authorizes EPA in cooperation with FDA to establish tolerance levels for pesticide residues on food.
Resource Conservation and Recovery Act and Solid Waste Disposal Act	Authorizes EPA to identify hazardous wastes and regulate their generation, transportation, treatment, storage, and disposal.
Comprehensive Environmental Response, Compensation, and Liability Act	Requires EPA to designate hazardous substances that can present substantial danger and authorizes the cleanup of contaminated sites.
Clean Air Act	Authorizes EPA to set emission standards to limit the release of criteria pollutants and hazardous air pollutants.
Clean Water Act	Requires EPA to establish a list of water pollutants and set standards.
Safe Drinking Water Act	Requires EPA to set drinking water standards to protect public health from hazardous substances.
Marine Protection, Research and Sanctuaries Act	Regulates ocean dumping of toxic contaminants.
Asbestos School Hazard Abatement Act/ and Asbestos Hazard Emergency Response	Authorizes EPA to establish a comprehensive regulatory framework for controlling asbestos hazards in schools.
Emergency Planning and Community Right-to-Know Act	Requires States to develop programs for responding to hazardous chemical releases and requires industries to report on the presence and release of certain hazardous substances.
Oil Pollution Act of 1990	Makes EPA responsible for oil spill prevention, preparedness, response, and enforcement activities associated with non-transportation-related onshore oil facilities.
Environmental Research, Development, and Demonstration Authorization Act	Authorizes all EPA research and development programs.
National Environmental Education Act	Provides for a program of education on the environment through activities in schools and related educational activities, and encourages students to pursue careers related to the environment.
National Environmental Policy Act of 1969	Provides a national policy requiring environmental impact statements describing potentially adverse effects of, and alternatives to, any major Federal action. Established the Council on Environmental Quality.

# Establishment of the OIG in EPA--Its Role And Authority

The Inspector General Act of 1978 (Public Law 95-452), as amended, created Offices of Inspector General to consolidate existing investigative and audit resources in independent organizations headed by Inspectors General.

EPA established its Office of Inspector General (OIG) in January 1980. As an agency with a massive public works budget, EPA is vulnerable to various kinds of financial abuses. The OIG's role is to review EPA's financial transactions, program operations, contracts, and administrative activities; investigate allegations or evidence of possible criminal and civil violations; and promote economic, efficient, and effective Agency operations. The OIG is also responsible for reviewing EPA regulations and legislation.

The EPA Inspector General reports directly to the Administrator and the Congress and has the authority to:

- *Initiate and carry out independent and objective audits and investigations,*
- *Issue subpoenas for evidence and information,*
- *Obtain access to any materials in the Agency,*
- *Report serious or flagrant problems to Congress,*
- *Select and appoint OIG employees,*
- *Fill Senior Executive Service positions,*
- *Administer oaths, and*
- *Enter into contracts.*

The Inspector General is appointed by, and can be removed only by, the President. This independence protects the OIG from interference by Agency management and allows it to function as the Agency's fiscal and operational watchdog.

## Organization and Resources

The Office of Inspector General functions through three major offices, each headed by an Assistant Inspector General: Office of Audit, Office of Investigations, and Office of Management. Nationally, there are nine Divisional Inspectors General for Audit and four Divisional Inspectors General for Investigations who direct staffs of auditors and investigators and who report to the appropriate Assistant Inspector General in Headquarters.

For fiscal 1997, the Agency was appropriated \$6.8 billion and authorized 17,951 full time equivalent (FTE) positions to conduct the environmental programs authorized by Congress to restore and protect the environment. As a separate appropriation account, the Office of Inspector General (OIG) received \$40.1 million (.6%) to carry out the provisions of the Inspector General Act of 1978, as amended. Eleven million of the OIG's appropriation was derived from the Hazardous Substance Superfund trust fund and \$577,000 was derived from the Leaking Underground Storage Tank trust fund. The OIG had a funded staffing level of 385 FTE positions.

## Purpose and Reporting Requirements of the Office of Inspector General Semiannual Report

The Inspector General Act of 1978, as amended, requires the Inspector General to keep the Administrator and Congress fully and currently informed of problems and deficiencies in the Agency's operations and to recommend corrective action. The IG Act further specifies that semiannual reports will be

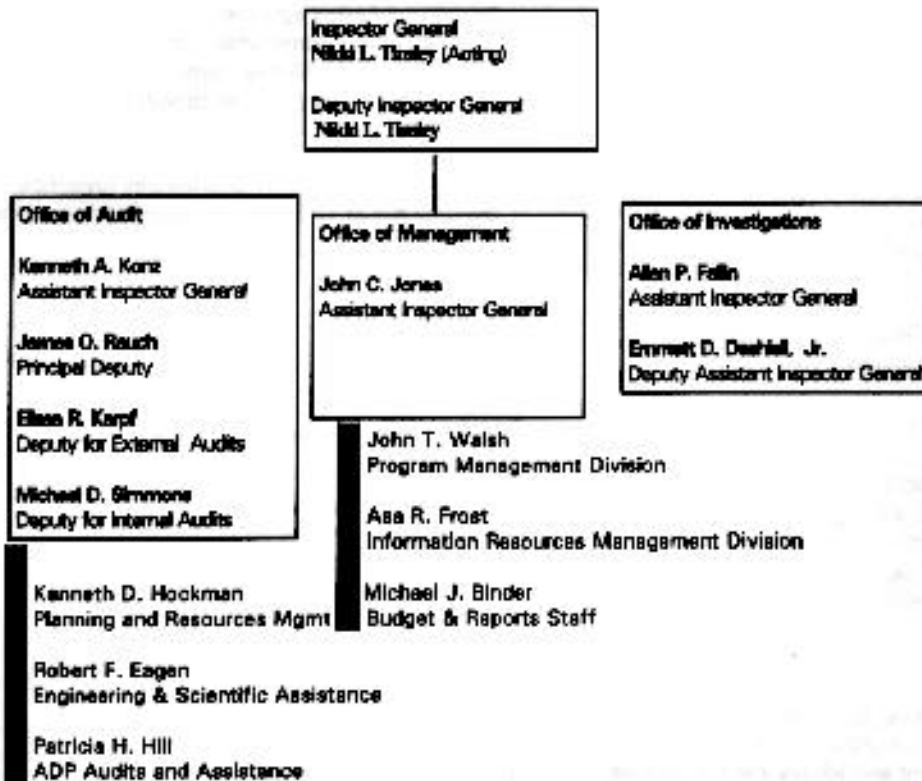
provided to the Administrator by each April 30 and October 31, and to Congress 30 days later. The Administrator may transmit comments to Congress along with the report, but may not change any part of it.

The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended, are listed below.

Source		Section/Page	
Inspector General Act, as amended.			
Section 4(a)(2)	Review of Legislation and Regulations	4	51
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	1	9
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	1	9
Section 5(a)(3)	Prior Significant Recommendations on Which Corrective Action Has Not Been Completed	Appendix 2	56
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	3	42
Section 5(a)(5)	Summary of Instances Where Information Was Refused	*	*
Section 5(a)(6)	List of Audit Reports	Appendix 1	55
Section 5(a)(7)	Summary of Significant Reports	1	9
Section 5(a)(8)	Statistical Table 1-Reports With Questioned Costs	2	9
Section 5(a)(9)	Statistical Table 2-Reports With Recommendations That Funds Be Put To Better Use	2	39
Section 5(a)(10)	Summary of Previous Audit Reports Without Management Decisions	Appendix 2	56
Section 5(a)(11)	Description and Explanation of Revised Management Decisions	Appendix 2	56
Section 5(a)(12)	Management Decisions with Which the Inspector General Is in Disagreement	**	
<i>* There were no instances where information or assistance requested by the Inspector General was refused during this reporting period.</i>			
<i>** There were no instances of management decisions with which the Inspector General was in disagreement.</i>			

# Office of Inspector General-Who's Who

## Headquarters



## Divisional Inspectors General for Audit

Regions 1 & 2  
Paul D. McKechnie

Region 3  
Carl A. Jannetti

Regions 4  
Mary M. Boyer

Region 5  
Anthony C. Carrolo

Regions 6, 7 & 8  
Bennie S. Salem

Regions 9 & 10  
Truman R. Beeber

Headquarters:

HQ Audit Division  
Edward Gekosky

Financial Audit Division  
Melissa M. Heat

Washington Contract Division  
Gordon C. Milbourn III



## Divisional Inspectors General for Investigations

Regions 1, 2 & 3  
Thomas L. Papineau

Regions 4, 5 & 7  
Alverdes Cornelious

Regions 6, 9 & 10  
Mark Vallerige

Washington Field Division  
David Geros

## Section 1-- Office of Audit

### OFFICE OF AUDIT OBJECTIVE, ACTIVITIES, AND MEASURES

**OFFICE OF AUDIT OBJECTIVE:** By 2005, achieve 15% improvement in providing objective, timely, independent auditing and consulting services which benefit EPA in meeting its 2005 environmental goals and improve the performance and integrity of its operations, and contribute to the OIG-wide goal of redirecting 10% of indirect resources to direct mission objectives

#### ACTIVITIES TO MEET OUR FUTURE OBJECTIVE

**Program Audits** - Determine the extent to which the desired results or benefits envisioned by the Administration and Congress are being achieved, reviews the economy, efficiency and effectiveness of operations, and determines the extent of compliance with applicable laws and regulations.

**Financial Statement Audits** - Reviews of the Agency's financial systems and statements to ensure that the Agency's accounting information is accurate, reliable and useful, and complies with applicable laws and regulations. Our objective is assist EPA in making improvements in the financial management processes and controls which will provide better information for decisions promoting the greatest possible environmental results.

**Assistance Agreement Audits** - Audits of EPA's Construction Grant Program, State Revolving Fund, Performance Partnership Grants, Interagency Agreements and Cooperative Agreements, which provide assistance to state, local and tribal governments, universities and nonprofit recipients accounting for about half of EPA's budget. We will audit both the financial and performance aspects, building on the Single Audit Act and focusing on resource intensive, higher risk programs.

**Contract Audits** - Audits of Agency indirect cost proposals, preaward, interim and final contracts. These audits determine the eligibility, allocability, and reasonableness of costs claimed by contractors and assure that EPA pays only for what it requests and receives. EPA has assumed audit cognizance of 15 major contractors and will continue to monitor the contract universe to identify high risk contractors. In addition, the Defense Contract Audit Agency provides contract audit services, on a reimbursable basis, at the majority of EPA's contractors.

## NEW INITIATIVES

**Water Quality-** The OIG plans to begin reviews of the clean water program because of the significant pollution problems, high risk to public health, and the significant level of resources.

**Performance Measures-** The OIG plans to work closely with the Agency during the development of performance measures, as part of the GPRA process, to see that appropriate controls are in place to provide accountability.

**Toxic Substances** - The OIG will review EPA's Toxic Substances Program which is responsible for protecting the public and environment from the risks associated with the manufacturing, use and disposal of all commercial toxic chemicals.

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## PERFORMANCE MEASURES/INDICATORS

- Amount of recommended efficiencies (funds put to better use)
- Examples of program or operational opportunities for changes made from recommendations
- Amount of costs questioned on Agency contracts and projects
- Amount of costs disallowed to be recovered or as cost efficiency
- Amount of recoveries from audit resolutions
- Number and quality of consultation, advisory and assistance recommendations
- Timeliness of financial audit opinions

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*The audit summaries that follow demonstrate how the OIG is implementing its strategic plan to achieve its mission and ultimately helping the Agency achieve its goal of effective management.*



## Significant Findings and Recommendations

As required by sections 5(a)(1) and (2) of the Inspector General Act of 1978, as amended, this section identifies significant problems, abuses, and deficiencies relating to the Agency's programs and operations along with recommendations for the current period. The findings described resulted from audits performed by or for the Office of Audit. Findings are open to further review but are the final position of the Office of Inspector General. This section is divided into four areas: Programs, Financial Statements, Assistance Agreements, and Contracts.



*Photo by Steve Delaney*

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## Programs

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The Inspector General Act requires the OIG to initiate reviews and other activities to promote economy and efficiency and to detect and prevent fraud, waste, and mismanagement in EPA programs and operations. Internal and performance audits and reviews are conducted to accomplish these objectives largely by evaluating the economy, efficiency, and effectiveness of operations. The OIG conducted a number of major reviews of EPA programs. The following are the most significant internal audit, performance audit, and special review findings and recommendations resulting from our efforts.

### Findings in Brief

EPA and Federal facilities need sufficient procedures to ensure that environmental laboratory data is of acceptable quality. Sharing information on poor performers and effective quality assurance systems could have helped avoid millions in expenditures and years of cleanup delays at the nine sites audited.

### Serious Environmental Data Quality Problems Impair Federal Facility Superfund Cleanups

Federal facilities comprise nearly 60 percent of EPA's Superfund workload under remedial investigation or feasibility study phases. In 1995, DOD and DOE had over 90 percent of the Federal facility sites on or pending inclusion on EPA's Superfund National Priorities List (NPL). Executive Order 12580 gave DOD and DOE cleanup responsibilities at their NPL sites, and the National Contingency Plan further defined their responsibilities but did not describe EPA's oversight role for these cleanups. Since 1992, environmental data quality has been a material weakness in the Agency's management control system.

### We Found That

Federal facilities have experienced serious problems with the quality of laboratory analyses used to make cleanup decisions, and there is evidence these problems are widespread. For example, extensive laboratory fraud was found at one laboratory, which was used by 28 DOD sites in three EPA regions, resulting in about \$5 million of lost data and associated expenses. In another case, EPA suspended a laboratory which did work at five DOD sites in two EPA regions. At one site, this laboratory and another produced \$2.5 million of data deemed unusable, delaying cleanup two years. We believe that one of the primary reasons these problems existed was because EPA's oversight role at Federal facility Superfund cleanups was unclear due to ambiguous legal authorities. Also, remedial project managers generally relied on Federal facilities to ensure that quality assurance project plan (QAPPs) requirements were met.



Rocky Mountain Arsenal Laboratory (EPA OIG Photo)

Of the 19 QAPPs audited at nine sites in Regions 8, 9, and 10, data quality objectives (the driving component of QAPPs) were not established or properly defined for 14 of them, 13 QAPPs were not approved by the regional quality assurance staffs, and a QAPP was not used to collect data for one site. Eleven QAPPs did not include data validation, laboratory audits, or magnetic tape availability, activities which we found particularly effective in detecting inappropriate quality data. Further, EPA's guidance for preparing QAPPs did not require these data quality activities when warranted. Poor quality data can lead to incorrect decisions resulting in inadequate health protection or expenditures for unneeded cleanup remedies.

EPA had not worked with DOD or DOE in assessing their environmental data quality systems department-wide, which would have identified significant deficiencies. Because of problems with their quality assurance systems, laboratory analyses conducted at DOD and DOE Superfund sites cannot be presumed to be of appropriate quality for decision making. DOD did not have a system for tracking laboratory performance and sharing laboratory audit results with other military services or Federal agencies. The DOE Office of Inspector General found problems with DOE's commercial laboratory quality assurance program allowing laboratories that failed to qualify or were suspended from one site to continue testing samples for other sites.

There was no system within the Federal government to share laboratory evaluations even though it could help avoid the use of incompetent laboratories and the costs of duplicate audits. EPA lacked procedures for exchanging laboratory performance information between its own programs, and for ensuring that poor quality data was not used at Federal facility Superfund sites. The Federal Facilities Restoration and Reuse Office, which develops guidance and policy for Superfund cleanups at Federal sites, and one region had not documented their data quality systems in acceptable quality management plans. Also, EPA had not established performance measures for environmental data quality at Superfund sites.



The Acting Assistant Administrator for Solid Waste and Emergency Response:

- Work with the regions to ensure that Federal facility Superfund QAPPs include requirements that are based on well-defined data quality objectives.
- Develop a national quality management plan and performance measures for the environmental data quality system.
- Issue guidance specifying regional oversight responsibilities for Federal facility Superfund cleanups and establish procedures for ensuring fraudulent or poor quality data is not used.
- Assess the adequacy of DOD's and DOE's environmental data management systems and create a forum for sharing environmental laboratory evaluations among Federal agencies.

The Assistant Administrator for Research and Development:

- Refine the data quality objectives process and work with the Federal Facilities Restoration and Reuse Office and regions to develop acceptable quality management plans.

The Assistant Administrator for Enforcement and Compliance Assurance:

- Request that Executive Order 12580 be modified to expressly identify EPA's oversight role for environmental data quality.

#### **What Action Was Taken**

*The final audit report (7100132) was issued to the respective Assistant Administrators on March 20, 1997. In responding to the draft report, Agency officials generally agreed with the findings and recommendations, and stated that a framework will be developed for a minimum quality assurance program that Federal facilities should have in place. Also, the Agency agreed to assess the adequacy of DOD's and DOE's environmental data quality systems by November 30, 1997, and to amend its data quality objectives guidance. A response to the final report is due by June 18, 1997.*

#### **Findings in Brief**

**Pennsylvania did not report numerous significant violators of the Clean Air Act (CAA) to EPA and did not take aggressive enforcement action to bring all violating facilities into compliance. As a result, EPA's oversight of the State's enforcement program was hindered.**

#### **Pennsylvania Did Not Report Significant Clean Air Act Violators**

Section 105 of the CAA provided the initial authority for Federal grants to help state and local agencies prevent and control air pollution. These grants required each state to perform inspections at specified major facilities and report significant violators to EPA in accordance with EPA's Timely and Appropriate Enforcement Policy. EPA uses this information to take action if a state does not enforce Federal law and to ensure that a violator achieves compliance timely.

#### **We Found That**

EPA set priorities for its air program and awarded more than \$5 million a year in grants to the Pennsylvania Department of Environmental Protection (PADEP) to carry them out. However, PADEP kept Region 3 uninformed by not reporting significant violators to EPA, thus avoiding what it perceived as Federal meddling.

#### **We Recommended That**

PADEP believed that it could work with facilities to achieve compliance without labeling the facilities as significant violators.

While PADEP performed 2,000 inspections during fiscal 1995, only six significant violators were reported to Region 3. We identified 64 other facilities that should have been on EPA's list of significant violators during Fiscal Year 1995, some of which had violated the CAA for years without PADEP reporting them to EPA. The violations included: 34 facilities that emitted excessive pollution; 22 facilities that violated their construction permit; and 8 facilities that installed machinery (which produced pollution) without receiving a construction permit from PADEP. Since we reviewed documentation for only 270 of the more than 2,000 major facilities in Pennsylvania, it appears that a more thorough review would have identified many more significant violators that should have been reported.

PADEP's failure to notify EPA that violations occurred hindered the Agency's ability to oversee the State's enforcement program, and Region 3 from ensuring that violators achieved compliance timely. This practice allowed PADEP to deal with violators without EPA involvement. This also contributed to allowing facilities that were serious contributors of air pollution to continue harming the environment,



Photo Courtesy of National Archives

sometimes for many years. PADEP's reasons for not reporting significant violators to EPA indicate a difference of approach on how to enforce the CAA.

Numerous violations persisted for long periods and were not reported by PADEP as significant violators. For example, a PADEP inspection at a facility that manufactures concrete structures identified seven violations during sixteen months starting in May 1993 to September 1994. It was not until October 1995 that a PADEP inspection verified that the last violation was resolved. Another facility that manufactured automotive carpet and interior trim was allowed by PADEP to operate with a faulty boiler emitting excess pollution and pay a penalty of \$500 per month. This arrangement continued from June 1995 until August 1996 when a new boiler was installed.

We also found that some of the inspections that PADEP performed were not thorough enough to determine whether a facility was complying with State and Federal regulations. Moreover, when the State identified violations, it did not always ensure the facility took corrective action. In total, 17 percent of the inspections we reviewed needed improvement.

- Take action to ensure PADEP reports significant violators as required by its Section 105 grant and by EPA's Timely and Appropriate Enforcement Policy.
- Require PADEP to conduct inspections that are thorough enough to determine a facility's compliance and perform follow-up in order to resolve violations timely.

### What Action Was Taken

*The final report (710015) was issued on February 14, 1997. In response to the draft report, Agency officials agreed with our findings and recommendations. Agency officials also stated that they will withhold a portion of Fiscal Year 1997 Section 105 grant funds until EPA is convinced that PADEP is reporting all known significant violators. A response to the final report is due by May 15, 1997.*

### Findings in Brief

The Radon and ENERGY STAR® voluntary programs used good management practices and developed ways to estimate their environmental results. However, improvements in documenting the planning process, phasing out Agency involvement, ensuring logo integrity, and reporting accuracy will enhance program effectiveness.

## Radon and ENERGY STAR® Voluntary Programs Were Generally Effective

EPA's voluntary programs seek to prevent pollution in partnership with its stakeholders. Both global warming and radon were ranked as high risks in EPA's report *Unfinished Business and Reducing Risk*. To address global warming, EPA developed the ENERGY STAR programs which encourage the use of more energy efficient technologies through partnerships with business, government, and nonprofit groups. The Radon program uses a combination of research, information dissemination, and partnerships with industry groups to decrease exposure to radon.

### We Found That

The Radon and ENERGY STAR® voluntary programs provided the impetus for overcoming barriers to energy-efficiency and changing consumer behavior, and were effective at achieving environmental benefits and reducing health risks. These programs demonstrated several good management practices, including planning, educating people about incentives, providing quality support, working with outside organizations, obtaining commitments, and evaluating progress and making adjustments. In addition, they effectively estimated the impact their activities had on reducing risks to health and the environment using information from both EPA and outside sources. As a result, the programs were able to (1) evaluate their progress, (2) measure their performance against goals, and (3) make adjustments to better achieve their goals.

Improvements in some areas will strengthen the overall benefits of these voluntary programs. The ENERGY STAR programs need to better document the planning process, including assumptions made, alternatives considered, and courses of action selected. The programs also need to define overall market transformation goals (the process whereby innovations are introduced into the marketplace and are increasingly accepted), and establish plans for phasing out the Agency's involvement when these goals are met.

Further, the ENERGY STAR programs practice of allowing manufacturers to self-certify their products for ENERGY STAR compliance may not preserve the integrity of the logo. As EPA expands the number of products that will use the ENERGY STAR logo to identify energy efficiency, the potential for misuse increases which

### We Recommended That

The Regional Administrator,  
Region 3:

might mislead readers who do not understand that it includes other than high radon areas.

### **We Recommended That**

The Director, Atmospheric Pollution Prevention Division, require the ENERGY STAR programs to:

- Document the planning process when developing future programs and prepare written year-end evaluations.
- Develop written plans to define a target level for market transformation and establish plans to phase out EPA's program support after the target is reached.
- Consider the need for additional efforts to maintain ENERGY STAR logo integrity, as the program applies the logo to new products.

### **What Action Was Taken**

*We issued the final report (7100130) to the Assistant Administrator for Air and Radiation on March 19, 1997. In responding to the draft report, Agency officials agreed with our findings and proposed corrective actions to address the recommendations, including action to require market transformation objectives and exit strategies in annual business plans for each program area.*

#### **Findings In Brief**

Federal regulations written in the 1970s have restricted EPA's ability to deal with concentrated animal feeding operations (CAFOs) that produce millions of tons of animal waste per year and threaten water quality. North Carolina had to strengthen its regulatory program to handle animal waste disposal situations not adequately covered under Federal regulations.

### **Federal Regulations Inadequately Protect Water Quality from Animal Waste**

CAFOs are concentrated animal or poultry growing operations for the production of meat, milk, and eggs, which produce large amounts of animal waste requiring disposal. The Clean Water Act includes CAFOs in the definition of a point source which subjects them to the requirements of the National Pollutant Discharge Elimination System (NPDES), and EPA promulgated final regulations for CAFOs in 1976. In 1995, North Carolina experienced animal waste spills totaling almost 30 million gallons.

### **We Found That**

At the time of the spills, North Carolina had a "no discharge" program in place for its animal feeding operations which was, in many ways, stricter than Federal CAFO regulations. However, the 1995 spills reached surface waters in the State, resulting in varying amounts of damage. After the spills, the State passed

could degrade the value of the logo and adversely affect the Energy Star programs.

The Radon program reports the statistic for high radon areas to demonstrate that the program is targeting high-risk areas first. However, the reported statistic

additional requirements for animal waste operations to include permitting, annual inspections of facilities, certification of operators of animal waste management systems, and stricter lagoon construction and siting requirements. North Carolina's stronger regulations better protect the water quality from accidental spills and improper land application of animal waste effluent.



Photo Courtesy of U.S. Department of Agriculture

Permitting facilities helps ensure adherence to the critical elements of a good animal waste management system. However, current Federal regulations only require that animal feeding operations defined as CAFOs be permitted. Further, critical elements of North Carolina's animal waste regulatory program such as land application, nutrient management, animal waste management plans, specific construction requirements, and operator training and certification are not addressed in Federal regulations. EPA regulations allow land application procedures to be addressed in NPDES permits when applicable, and encourages that other elements be included.

Under existing Federal regulations, an inspector may have to observe a discharge/spill in process at the time of inspection for EPA to act quickly to obtain compliance; such as requiring the facility to obtain a permit. Permitting facilities will allow more effective inspections, since they must meet requirements which include many of the critical elements previously mentioned. Currently, it is difficult to have an effective compliance and inspection program because only 30 percent of the estimated 6,600 facilities that must meet the no-discharge CAFO regulations are permitted. The goal for the CAFO program should be to prevent a spill before it occurs, and permitting as well as inspections are pivotal to the pollution prevention process.

Present Federal regulations allow permitting authorities to designate an animal feeding operation as a CAFO if the operation is a significant contributor to pollution of waters of the United States, but an on-site inspection must be completed before the case-by-case designation rule. Adoption of this process on a broader basis by EPA, although resource intensive, would offer an additional measure of protection. OECA has included CAFOs in its 1998 national enforcement priorities and is working to develop a strategy which would include means of identifying non-permitted facilities. Use of U.S. Department of Agriculture data to identify areas with environmental problems is being considered as a means to focus the compliance and enforcement strategy for CAFOs. The Office of Water (OW) has included CAFOs as a priority for its National Agenda for 1997-1998. OW will also evaluate compliance with existing permits and assess whether national guidelines are strong enough for CAFO operations.

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The Assistant Administrator for Water and the Assistant Administrator for Enforcement and Compliance Assurance:

- Revise and reissue the CAFO regulations by streamlining and strengthening the definition of a CAFO.
- Take regulatory actions to include minimum adequate requirements for land application, nutrient management, waste system operation management, and facility and expansion construction requirements.
- Maximize use of existing regulations by encouraging or requiring intensive use of the case-by-case CAFO designation process and developing a methodology to identify at-risk animal feeding operations for permitting consideration under this process.
- Establish a plan to inspect permitted and unpermitted CAFOs on a regular basis.

#### **What Action Was Taken**

*The final report (7100142) was issued to the Assistant Administrator for Water and the Assistant Administrator for Enforcement and Compliance Assurance on March 31, 1997. In response to our draft report, the Agency indicated it shares the concerns expressed in the report about the environmental threat posed by animal waste, and agreed to take corrective actions to assure proper regulation of CAFOs.*

#### **Findings In Brief**

**Inconsistent penalty policies and practices between states resulted in a wide variation in the methods of calculating and average size of penalties. Also, states did not always adequately calculate or recover the economic benefit when assessing penalties to deter noncompliance with RCRA.**

#### **RCRA Civil Penalties by States Were Inconsistent**

The Resource Conservation and Recovery Act (RCRA) enforcement program was established to deter noncompliance with RCRA regulations. EPA regions use the 1990 RCRA Civil Penalty Policy (RCPP) to ensure that penalties eliminate the economic incentives to violate regulations, reflect the gravity and duration of RCRA violations, and deter noncompliance. Authorized states, the primary implementers of the RCRA enforcement program, are not required to use the RCPP to calculate penalties, and state penalties vary from state to state.

#### **We Found That**

Application of penalty policies was inconsistent between states, which can result in inconsistent enforcement of RCRA-related facilities. In addition, the states we reviewed had smaller average penalties than EPA regions, and states varied in documenting penalty calculations and adjustments. It is critical that penalties be effective and more consistent among states to deter noncompliance and ensure equitable treatment of regulated facilities.

#### **We Recommended That**

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received from being in noncompliance. Our review of penalties in Maryland and West Virginia found that the economic benefit of noncompliance was not documented in penalty calculations, and therefore it was not known if it was recovered in the penalty amounts. In Nebraska and Louisiana, the economic benefit portion was calculated only occasionally for proposed penalties.

Even when the economic benefit was calculated in state cases for an initial proposed penalty amount, it was not always in the final penalty. In both regions and states, the initial proposed penalty amounts were often reduced through negotiation, and (in some state cases) the final amounts were reduced below the calculated economic benefit of noncompliance. When a facility is given relief from paying back the economic benefit it gained from noncompliance, an incentive for noncompliance is provided. Further, we reviewed cases in both regional and state files where the economic benefits that facilities may have derived from noncompliance were not calculated.

Staff responsible for determining penalties were not required to take training on how to calculate economic benefits using EPA's computer model. The Agency issued a manual which provides cost estimates for many RCRA violations. However, more information was needed on how to calculate economic benefit for violations not listed in the guidance. For the violations we found with no economic benefit calculation and no explanation, better training and guidance might have resulted in more effective penalty assessments.

### **We Recommended That**

The Assistant Administrator for Enforcement and Compliance Assurance:

- Encourage the EPA regions to work with the states to ensure that the economic benefit of noncompliance is calculated and recovered in penalty assessments.
- Provide additional training and guidance to regional and state personnel to help establish expertise in calculating economic benefits of noncompliance.
- Encourage the regions to work with the states during grant negotiations to achieve state implementation of the RCRA Civil Penalty Policy, and to improve documentation of civil penalties and subsequent penalty adjustments.

### **What Action Was Taken**

*The draft report was issued to the Assistant Administrator for Enforcement and Compliance Assurance on December 23, 1996. A response to the draft report was due by February 14, 1997, but had not been received at the time of final report (7100146) issuance on March 31, 1997.*

#### **Findings in Brief**

**The Biennial Report process for collecting hazardous waste data is complex and lengthy, thus increasing the potential for errors. The 1997 report does not include waste minimization or capacity planning data which limits its value.**

For penalty assessments, states were not as rigorous as EPA in calculating and recovering economic benefits that facilities

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instructions to states which forward them to (and collect them from) generators, and treatment, storage, and disposal facilities (TSDs), check data quality, and return the information to EPA.

The Biennial Reporting System (BRS) was designed by EPA to meet the statutory requirement of reporting on the amount and types of hazardous waste generated. It is an important source of information for the regulated community. EPA provides the user community with the ability to request enhancements to make BRS data more "obtainable" for reporting purposes.

### **We Found That**

The overall Biennial Report process reflects the complexity of RCRA and is difficult for generators and TSDs that have to report hazardous waste information. EPA's instructions and forms are lengthy and complex, and several states have replaced them with their own shorter versions. Some Biennial Report codes differ from codes used daily by generators to manage hazardous waste and can result in confusion, potential for data errors, or limited usefulness.

Many users of the BRS have problems obtaining useable data because the programming language is difficult to learn and use, and few people have the expertise to program necessary reports. Users of the Biennial Report believe that expanded use of electronic technology and better reporting is needed, and various states and regions are already using innovations that improve the effectiveness of data collection and management.

RCRA requires regulated entities to report efforts reducing the volume and toxicity of hazardous wastes generated which EPA and state agencies use to measure progress. Since the Information Collection Request for the 1997 Biennial Report does not include the requirement for reporting on waste minimization activities, the Agency must determine how it will report this progress.

## **Streamlining Hazardous Waste Reporting Will Improve Clarity and Ease of Reporting**

### **We Recommended That**

The Acting Assistant Administrator for Solid Waste and Emergency Response:

- Streamline and redesign the Biennial Report forms and instructions to make them clearer and easier for generators and TSDs to complete.

The Resource Conservation and Recovery Act (RCRA) requires EPA to collect information on the generation and disposal of hazardous waste every two years. Consequently, EPA established the National Biennial RCRA Hazardous Waste Report (Biennial Report) and provides biennial reporting forms and



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- Educate the states regarding the use of existing electronic enhancements to improve their data collection and reporting activities.
  - Assess the type of data required and specify how the RCRA reporting requirement will be met.

### What Action Was Taken

*The final report (7100114) was issued to the Acting Assistant Administrator for Solid Waste and Emergency Response on February 18, 1997. In the March 27, 1997, response to the final report, the Assistant Administrator agreed with our recommendations. Several corrective actions were planned to include streamlining changes for the 1999 reporting forms, providing additional training and electronic enhancements for data reporting and use, and evaluating the best methods for satisfying the statutory requirements related to waste minimization. Based on this response, we closed the report in our tracking system.*

### Findings In Brief

The Extramural Management Specialist (EMS) position established by the Office of Research and Development (ORD) helped remove extramural management as a Federal Managers' Financial Integrity Act (FMFIA) material weakness. However, the EMS role was not well-defined and some Agency officials were unclear about its role, responsibilities, and benefits.

### Extramural Management Specialist Positions Were Beneficial But Not Well-Defined

In 1990, the Agency declared ORD's management of extramural resources as an FMFIA Presidential-level material weakness. To correct this, ORD, among other things, created a network of acquisition specialists (EMSs) in 1993 to advise top management on proper procurement practices and to coordinate all extramural management activities for their respective offices, laboratories, or divisions. Fourteen EMSs are located across the country, with at least one at each ORD research laboratory.

### We Found That

EMSs helped ORD remove its six-year FMFIA material weakness pertaining to extramural resource management by advising top-level managers and technical staff at their locations on extramural matters. They improved extramural package quality by working with project officers (PO) on a wide array of issues, and by providing valuable oversight to ensure ORD used the correct instruments. EMSs also worked on ORD Management Review teams which were effective in identifying weaknesses and areas of concern, and they improved ORD's staff understanding of extramural management by teaching various training courses.

The EMS position, while beneficial, was not well-defined and led to the performance of unallowable or unintended duties. Fifty percent of EMS position descriptions needed updating, and 43 percent contained duties typically performed by POs which are specifically prohibited by ORD policy. In some cases, EMSs had either assumed roles not addressed in the position description or did not perform certain functions which had not been deleted. ORD management indicated that all EMS position descriptions should contain a consistent core of duties.

- Revise the Biennial Report codes (system type, form and source) to avoid the confusion experienced by generators and TSDs.

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role of the EMS. Often times, GAD staff dealt with someone other than the EMSs to resolve assistance package issues, and some were not even aware of who the EMSs were. As a result, GAD staff were not always working with the ORD official most knowledgeable about the assistance issues. OAM officials expressed concern that some EMSs performed both acquisition and project officer functions, often without authority or a warrant.

### **We Recommended That**

The Assistant Administrator for Research and Development require his staff to:

- Develop a standardized EMS position description, with assistance from OAM and GAD, which includes a “core” set of duties and responsibilities to ensure consistent implementation nationwide.
- Revise the *ORD Policies and Procedures Manual* to clarify that EMSs are not permitted to perform project officer duties either officially or informally.
- Communicate the EMS role to OAM and GAD management and staff, and take steps to improve communication with the two offices.

### **What Action Was Taken**

*The final report (7100141) was issued to the Assistant Administrator for Research and Development on March 27, 1997. In responding to the draft report, the Assistant Administrator agreed with our recommendations and will provide an action plan, with timeframes, by June 27, 1997.*

#### **Findings in Brief**

Region 5 did not promptly establish receivables, send initial billings, or follow-up on unpaid accounts to responsible parties for Superfund site oversight costs .

### **Superfund Oversight Costs Were Not Billed or Collected Timely**

An important objective of the Superfund program is recovering funds that EPA spends cleaning up a Superfund site, including the cost of overseeing cleanup work that the responsible party performs, to replenish the Superfund Trust Fund. Region 5 is responsible for billing and collecting accounts receivable for these costs at sites it monitors.

### **We Found That**

Region 5 often took months, and sometimes years, to establish accounts receivable and bill responsible parties for Superfund oversight costs. Of the 24 Superfund site files we reviewed, 17 were billed late and 4 were not billed at all. In addition, 36 percent of letters in the files demanding payment were sent late and

Staff from both the Grants Administration Division (GAD) and the Office of Acquisition Management (OAM) stated that they did not fully understand the

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The Region's billing practice hindered collection and accounting efforts since annual billings included only the current year's oversight charges and excluded unpaid balances and accumulated interest from prior years. This practice does not provide the Region or the responsible party with the magnitude of the entire unpaid balance or enough detail to permit reconciliation to accounting records. Cumulative balance billings would allow EPA staff to identify and pursue parties with the highest debt and allow prioritization of resources in the collection of unpaid balances.

The Regional Comptroller's Office (RCO) received payments for accounts receivable which did not exist in its accounting records because the Office of Regional Counsel (ORC) did not forward a number of court orders needed to establish accounts receivable. Agency directives require ORC to send court orders to the RCO, but some attorneys were unaware of this requirement. In addition, there was no follow-up system to ensure that the RCO's requests for supporting documents were answered. As a result, Region 5's accounts receivable were incomplete and the RCO was not able to match collections to the related receivable.

### **We Recommended That**

The Regional Administrator, Region 5, direct the Regional Comptroller to:

- Develop and implement specific time frames for preparing and forwarding annual oversight bills to responsible parties.
- Emphasize timely issuance of dunning letters following annual oversight billings.
- Modify the new billing and collection system so that annual billing and dunning letters include outstanding unpaid balances.

The Regional Administrator, Region 5, direct the Regional Counsel to:

- Establish and implement internal control procedures to routinely follow-up on the RCO's requests for documentation.

### **What Action Was Taken**

*The final report (7100139) was issued to the Regional Administrator, Region 5, on March 26, 1997. In responding to the draft report, the Agency agreed with our findings and has implemented or planned actions to address the report's recommendations.*

#### **Findings in Brief**

**The Agency did not provide timely cost packages to the U.S. Coast Guard (USCG), thus delaying reimbursements and impeding USCG's ability to pursue cost recovery from oil spill polluters.**

62 percent were not sent at all. Reliance on manual procedures contributed to both of these problems.

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90 days of site response completion.

### **We Found That**

EPA had difficulty preparing and submitting cost determination packages timely to the USCG to support its billings. The Agency's Office of Emergency and Remedial Response (OERR) and regional personnel were not aware of the Act's three year statute of limitations for the USCG to pursue cost recovery from oil spill polluters, starting on the site completion date. We reviewed 44 oil spill sites and determined that regional officials had completed cleanup at 15 (34 percent) of them more than two years prior, but the cost packages had not been completed. USCG needs at least one year prior to the statutory deadline to prepare a case against a polluter.

In addition, cost packages prepared in the regions were not reconciled to EPA's Integrated Financial Management System (IFMS) before being forwarded to the Cincinnati Financial Management Center (CFMC), and in most cases, the regions were requested to submit corrections. There were long delays between requesting corrections and receiving responses, and, in some cases, no response was provided. Untimely submittal of cost packages and corrections caused EPA lengthy delays in receiving reimbursement for expended costs and hindered

USCG's ability to recover the government's costs from responsible parties.

EPA recognized the need to dedicate resources to process cost packages timely, and OERR indicated to the USCG that it would provide additional resources to the regions to alleviate the backlog. Regions 3, 5, and 6 dedicated employees to their oil spill programs, and OERR dedicated an individual at CFMC to review and reconcile cost packages, resulting in a reduction of the backlog of outstanding sites awaiting reimbursement by the USCG.

### **We Recommended That**

The Acting Assistant Administrator for Solid Waste and Emergency Response direct the Director of the Office of Emergency and Remedial Response to:

- Emphasize to OERR and regional oil spill personnel the importance of providing cost documentation through CFMC to USCG within 90 days of site completion.

## **EPA Hindered U.S. Coast Guard's Ability to Recover Costs from Polluters**

The Oil Pollution Act of 1990 (Act) created the Oil Spill Liability Trust Fund, which is managed by the USCG. EPA's oil spill program is funded through national and site-specific Interagency Agreements (IAG) with the USCG, and the multi-incident IAG required EPA to submit cost documentation within

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IFMS before forwarding the cost package to CFMC.

**What Action Was Taken**

*The final report (7400017) was issued to the Acting Assistant Administrator for Solid Waste and Emergency Response on January 14, 1997. In responding to the draft report, the Assistant Administrator agreed with our recommendations and provided milestone dates to initiate actions which, when implemented, will resolve our findings.*

- Work with the regions to provide CFMC with the status of all oil spill cases opened prior to 1997. Also, direct the regions to immediately prepare and submit cost documentation packages for all sites that have been completed.
- Provide instructions to the regions' oil spill personnel on how to reconcile cost documentation to

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Over the years, the OIG has expressed serious concerns about financial management in EPA. Historically, EPA did not give financial management the attention it needed. In response to these concerns, EPA has taken a number of corrective actions. During 1996, EPA continued to make substantial progress in improving its financial reporting systems and practices. The OIG has focused on identifying problems related to those issues needing attention to improve financial, budget, and performance management in the Agency. The following section summarizes the most significant findings and recommendations during this semiannual reporting period.

#### Findings in Brief

During fiscal 1996, EPA continued to make substantial progress in improving its financial reporting systems and practices, resolving many issues that caused us to qualify or disclaim an opinion on prior years' financial statements. The issues preventing the Agency from receiving unqualified opinions on its fiscal 1996 financial statements should be resolved during fiscal 1997.

### Substantial Progress Made in Financial Statement Reporting

Fiscal 1996 was the first year the Government Management Reform Act required Agency-wide audited financial statements for EPA. Previously, EPA was only required to prepare audited financial statements for its trust funds, revolving funds and commercial activities. EPA's financial statements consist of the Superfund Trust Fund, State and Tribal Assistance Grants Appropriation (STAG), and All of EPA's Other Appropriated Funds.

#### We Found That

Opinion on EPA's Fiscal 1996 Financial Statements. In our opinion, the Consolidating Statement of Financial Position fairly presented the financial position of EPA, as well as STAG and All Other Funds as of September 30, 1996, except for any adjustments that might have been necessary for unbilled Superfund oversight costs and accrued grantee liability. We disclaimed an opinion on the Superfund Statement of Financial Position as of September 30, 1996 because we were unable to audit the unbilled oversight costs, the amounts accrued for unbilled grantee expenses, and the components of Superfund net position.

Except for the Superfund Trust Fund (for which we disclaimed an opinion on the fiscal 1995 financial statements), we had not previously audited the financial statements of the other reporting entities included in the financial statements. Therefore, we could not determine whether the balances reported for assets, liabilities and net position as of October 1, 1995 were fairly presented. Since these balances impact the Consolidating Statement of Operations and Changes in Net Position for the year ended September 30, 1996, we could not express an opinion on the Statement of Operations and Changes in Net Position for Superfund, STAG, All Other Funds, and the Agency as a whole. The issues that caused us to qualify or disclaim an opinion on the reporting entities included in the

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## Financial Statements

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**Superfund Oversight Costs.** EPA incurs oversight costs to monitor cleanups of hazardous waste sites which are recoverable by EPA from responsible parties according to the terms of Consent Decrees or Consent Orders. Until these costs are billed, they are not recorded as an asset in EPA's accounting system. Therefore, regional finance personnel had to estimate the amount of unbilled oversight costs as of September 30, so the costs could be shown as an asset in the financial statements. Financial Management Division personnel provided regional finance offices with procedures for developing and recording the amount of unbilled oversight costs. However, the Agency's methodology resulted in the omission of some costs that should have been included while including other costs that should have been excluded.

**Superfund Net Position.** The budget execution process within the Agency's accounting system was initially set up to expend funds as though the source of all funds was appropriated authority; however, Superfund has both appropriated and non-appropriated authority. When finance officials recorded various transactions for non-appropriated authority, the equity, budget and revenue accounts were improperly affected. As a result, we were unable to determine if the components of net position were fairly stated. This problem was first reported during the audit of the fiscal 1993 financial statements.

**Grant Payments.** EPA's grantees are not required to provide the Agency with information on the amount of expenses they have incurred, but have not billed EPA, as of September 30.

To estimate the fiscal 1996 accrued liability for grant expenses, Agency financial management staff contacted a sample of grant recipients to obtain billing cycle information and/or the actual amounts owed the grantees as of September 30. We found that most grantee responses did not correspond with the original information they had provided, so we were unable to determine whether the accrued grant liability included in the financial statements was fairly presented.

### **We Recommended That**

The Acting Chief Financial Officer:

- Establish a working group to determine the best methodology for estimating the amount of unbilled Superfund oversight costs to accrue at year-end; and
- Work with the Acting Assistant Administrator for Administration and Resources Management to obtain information needed to fairly present the accrued liability for grant expenses in the financial statements.

Statement of Financial Position also affected the Statement of Operations and Changes in Net Position.

### **Material Internal Control Weaknesses**

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### Findings in Brief

The fiscal 1996 financial statements for the Pesticides Reregistration and Expedited Processing Fund (FIFRA Fund) were fairly presented. However, the draft Overview needed to provide additional information and more accurately report on the Agency's progress in reregistering pesticides.

report recommendations or identified alternative corrective actions to resolve the issues discussed in the report. The Agency plans to implement corrective actions on all reported material internal control weaknesses by August 15, 1997. Since we believe that the corrective actions planned and the milestones established are responsive to our recommendations, we did not request a response to the final audit report.

## Pesticides Reregistration Accomplishments Can Be More Reliably Reported

The 1988 amendments to the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) mandated the accelerated reregistration of all pesticide products registered prior to November 1, 1984. When EPA determines that a pesticide active ingredient is eligible for reregistration, it issues a Registration Eligibility Decision (RED) and the product is reregistered about 14 to 24 months later. The Chairman of the House Agriculture Committee requested that we audit the fiscal 1996 financial statements for the Fund.

### We Found That

In our opinion, the financial statements fairly presented the FIFRA Fund's financial position and the results of its operations and changes in net position for the year ended September 30, 1996. In reviewing the draft Overview accompanying the financial statements, we determined that:

Fourteen (9 percent) of the 148 REDs EPA reported it had completed through the end of fiscal 1996, represented canceled, suspended or exempt active ingredients for which a RED document was not prepared. Although these activities show progress toward meeting the Agency's goal of reassessing and reregistering products, disclosing the final disposition of chemicals would provide program officials and others with more accurate data for assessing program accountability. In addition, EPA prematurely counted REDs as being completed when an undated letter to the registrant was signed indicating that the pesticide active ingredient is eligible for reregistration, even though it can take up to 20 additional months to issue REDs to the registrants.

Problems with EPA's Pesticide Regulatory Action Tracking System resulted in EPA overstating its fiscal 1996 program accomplishments for the FIFRA Fund. The 159 products reported as reregistered during fiscal 1996 were overstated by 11, and 153 prior year product cancellations were reported as accomplishments. Further, the number of products amended was understated by four. If the Agency verified and validated program accomplishment data, accuracy and completeness of the data available to manage pesticide reregistration activities could be improved.

### What Action Was Taken

The final report (7100120) was issued on March 24, 1997. In responding to the draft report, the Acting Chief Financial Officer concurred with most of our draft



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- Disclose the final disposition of completed REDs and explain that REDs are counted as complete before they are issued to the registrant, and
  - Develop and implement a policy that requires verification and validation of program accomplishments.

#### **What Action Was Taken**

*The final report (7100125) was issued to the Assistant Administrator for Prevention, Pesticides, and Toxic Substances on March 13, 1997. In responding to the draft report, the Assistant Administrator agreed with all of our findings and recommendations. A response to the final report is due by June 11, 1997.*

#### **We Recommended That**

The Assistant Administrator for  
Prevention, Pesticides, and Toxic  
Substances:

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#### Findings in Brief

Local demand for loans was not sufficient to use more than \$25 million available in Idaho's State Revolving Fund (SRF), and the State's SRF-related reporting systems were inadequate and contained a serious internal control weakness.

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Over the past several years, the OIG has frequently identified problems in the Agency's award and administration of interagency agreements, and assistance agreements at various offices and facilities. These audits determine whether costs claimed by assistance recipients are eligible, supported by documentation, necessary, and reasonable. The following section summarizes the most significant findings and recommendations reported during this semiannual reporting period.

### Idaho State Revolving Funds Not Used Timely

The Clean Water Act established the SRF program in 1987 to create self-sustaining revolving funds in each state. The SRFs provide loans for construction of wastewater treatment facilities and other authorized activities. Federal capitalization grants provide the initial funds for SRFs, and Idaho received seven totaling \$50.4 million from August 1989 through April 1995. When combined with the State's matching funds, \$60.5 million was available for loans to local communities and for administrative expenses.

#### We found That

During the first six years of the Idaho SRF program, local demand for loans was not sufficient to use all available SRF funds. A gap between demand and available funds reached a high point of more than \$25 million as of October 1, 1994, representing more than double the largest annual grant ever awarded to Idaho. While the gap was reduced to \$17 million as of June 30, 1995, with two large loans totaling \$14 million, it still exceeded more than double the fiscal 1995 grant of about \$7 million.

The gap between loans awarded and funds available was the result of several local communities failing to follow through with their original plans to obtain SRF loans for reasons such as obtaining other sources of funding, changing priorities, and inability to obtain permits. We identified 43 potential projects for which loans were planned and determined that 16 (37 percent) totaling \$15 million did not result in loans.

Idaho's SRF reporting systems were inadequate in two respects. First, annual Intended Use Plans (IUP) did not include enough projects to account for all available SRF funds. In fiscal 1995, the State's IUP listed projects accounting for only \$6 million of the \$20 million available in SRF funds. Second, the accounting system did not have sufficient controls to ensure that SRF funds were recorded

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## Assistance Agreements

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weakness. The cash balance reported in the fiscal 1995 financial statements was under-reported by \$91,295.

**We Recommended That**

The Regional Administrator, Region 10:

- Focus on demand during the Region's annual reviews of Idaho's SRF program and request the State to identify steps it is taking to improve demand and accelerate timely use of funds for high priority projects.
- Inform Idaho of the requirement that IUPs should account for all available SRF funds.
- Request the State to obtain annual audited financial statements of the SRF.

**What Action Was Taken**

*We issued the final report (7100147) to the Regional Administrator, Region 10, on March 31, 1997. The Agency concurred with all of the recommendations and stated that Idaho has taken actions to increase the use of funds and ensure that its IUPs are complete. We consider the corrective actions to be satisfactory and closed the report in our tracking system.*

and reported accurately. Cash balances reported in the SRF financial statements did not agree with the SRF general ledger cash balance, a serious internal control

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## Construction Grants

In December 1996, the Agency declared the Construction Grants Close Out a new material management control weakness under the 1996 Integrity Act Report to the President and Congress. To assist the Agency in its effort to close out the construction grants program, the OIG, in consultation with the Agency, implemented a revised audit strategy in October 1994 that focuses effort on the most vulnerable grants, based on a risk analysis of each remaining grant subject to audit. When the OIG implemented its revised audit strategy, there were 1,453 grants totalling \$12.4 billion subject to audit. As of March 1997, there were only 116 grants totalling \$2.5 billion which are expected to receive OIG review during the next two and a half years. Summaries of some audits of construction grants with significant issues follow.

### Findings in Brief

The Monterey Regional Water Pollution Control Agency, California, claimed \$35,360,324 of ineligible construction, engineering, administrative, and other costs for the design and construction of a regional wastewater treatment plant. An additional \$1,593,473 of unsupported costs were questioned.

### Nearly \$37 Million Questioned on Monterey, California, Project

#### We Found That

EPA awarded three grants totaling \$44,456,541 for the design and construction of a regional wastewater treatment plant with secondary treatment. The grantee claimed \$35,360,324 of ineligible costs under the grants, including:

- \$26,247,435 of construction, engineering and other costs that were outside the scope of the approved project;
- \$6,637,602 of engineering, force account, administrative, and miscellaneous costs that were previously disapproved by the delegated state agency, incurred after the approved construction completion date, or associated with ineligible environmental impact studies or planning activities;
- \$2,475,287 of defense costs that were associated with a contractor's construction claim that was disapproved by the U.S. Army Corps of Engineers, and credits for project-related revenues that should have been offset against the project costs.

We also questioned, as unsupported, \$1,593,473 of construction and engineering costs incurred without the necessary prior approvals from the delegated state agency.

#### We Recommended That

The Regional Administrator, Region 9, not participate in the Federal share of the ineligible costs (\$26,902,135), obtain and evaluate any additional justification and documentation from the grantee for the Federal share of unsupported costs (\$1,212,314), and recover the applicable amount from the grantee.

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*We issued the final report (7300015) to the Regional Administrator, Region 9, on December 31, 1996. A response to the audit report, due by April 1, 1997, has not been received.*

#### **Findings In Brief**

**The City of New York claimed \$19,115,757 of ineligible construction, engineering, force account, and administrative expenses for construction of upgrades on two sewage treatment facilities. An additional \$16,320,786 of unsupported cost were questioned.**

### **Over \$35 Million Questioned on New York City Projects**

#### **We Found That**

EPA awarded five construction grants totaling \$565,505,660 to upgrade sewage treatment facilities at the Coney Island and Owl's Head water pollution control plants. The grantee claimed \$19,115,757 of ineligible costs under the grants, including:

- \$11,187,933 of construction and project improvement costs that were primarily for ineligible construction change orders, in excess of the actual costs incurred, or associated with normal operation and maintenance functions;
- \$11,426,728 of project engineering costs which exceeded the limits imposed by the New York State Department of Environmental Conservation, and were greater than the amounts actually paid;
- \$481,108 for innovative/alternative treatment, for grantee force account costs incurred before the grants were awarded or allocable to ineligible portions of the projects, and for administrative and inspection costs using the incorrect construction eligibility factor;
- \$3,980,012 for credit adjustments to eliminate a duplicate downward adjustment already applied under another project and the grantee's deduction for unpaid construction retainages.

We also questioned \$16,320,786 of unsupported indirect costs, innovative/alternative costs, and costs for which no information was provided.

Similar findings of questioned costs pertaining to New York City totaling over \$10 million were reported in our semiannual report to Congress for the period ended March 31, 1996.

#### **We Recommended That**

The Regional Administrator, Region 2, not participate in the Federal share of the ineligible costs (\$14,395,792), obtain and evaluate any additional justification and documentation from the grantee for the Federal share of unsupported costs (\$14,739,351), and recover the applicable amount from the grantee.

#### **What Action Was Taken**

on February 10, 1997 and March 31, 1997, respectively. Responses to the audit reports are due by May 9, 1997, and June 30, 1997.

#### Findings in Brief

The City of Baltimore, Maryland, claimed \$1,333,847 of ineligible construction, engineering, administrative, and force account costs for modifications to a wastewater treatment plant. An additional \$7,665,732 of unsupported costs, including \$5,770,727 above the grant ceiling, were questioned.

### Almost \$9 Million Questioned on Baltimore, Maryland, Project

#### We Found That

EPA awarded a grant totaling \$10,785,000 for basic and \$495,165 for innovative funding for the construction of anaerobic digesters to treat primary and secondary thickened sludge at the Back River wastewater treatment plant. The grantee claimed \$1,333,847 of ineligible costs under the grant, including:

- \$1,049,373 for force account, engineering, and construction costs which were outside the scope of the approved project, or were in excess of the eligible bid and change orders;
- \$284,474 for payroll additive costs which were not supported by an approved rate.

We also questioned \$7,665,732 of unsupported engineering and construction costs for which eligibility determinations had not been made by EPA or the Maryland Department of the Environment. The grantee claimed \$5,770,727 in excess of the grant ceiling and stated that the grant ceiling was established substantially below the amount of funding required for the project. These costs are unsupported pending a decision by EPA.

Similar findings of questioned costs pertaining to Baltimore totaling nearly \$9 million were reported in our semiannual report to Congress for the period ended September 30, 1996.

#### We Recommend That

The Regional Administrator, Region 3, not participate in the Federal share of the ineligible costs (\$1,000,385), and obtain and evaluate any additional justification and documentation from the grantee for the Federal share of unsupported costs (\$5,749,299).

#### What Action Was Taken

We issued the final report (7300025) to the Regional Administrator, Region 3, on March 31, 1997. A response to the report is due by June 30, 1997.

#### Findings in Brief

The Los Angeles County Sanitation District claimed \$6,692,844 of ineligible construction, engineering, and equipment costs for portions of a wastewater treatment facility that was never placed into operation. An additional \$307,889 of unsupported costs were questioned.

#### What Action Was Taken

The final reports (7100111 and 7100150) were issued to the Regional Administrator, Region 2,

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grantee claimed \$6,692,844 of ineligible costs under the grants, including:

- \$6,301,523 of construction, engineering, and other costs that were outside the scope of the approved project;
- \$228,000 for a steam turbine building which should have been credited to the project in accordance with a grant termination agreement; and
- \$163,321 of force account costs incurred after the approved construction completion date.

We also questioned \$307,889 of unsupported engineering, settlement, and legal costs which had not been approved by the State Water Resources Control Board because the grantee had not provided adequate documentation to support the costs.

Similar findings of questioned costs pertaining to Los Angeles totaling more than \$73 million were reported in our semiannual reports to Congress for the periods ended March 31 and September 30, 1995, and March 31, 1996.

#### **We Recommended That**

The Regional Administrator, Region 9, not participate in the Federal share of the ineligible costs (\$5,674,739), obtain and evaluate any additional justification and documentation from the grantee for the Federal share of the unsupported costs (\$261,213), and recover the applicable amount from the grantee.

#### **What Action Was Taken**

*We issued the final report (7200004) to the Regional Administrator, Region 9, on January 2, 1997. A response to the audit report, due April 2, 1997, has not been received.*

### **\$7 Million Questioned on Los Angeles County Project**

#### **We Found That**

EPA awarded five grants totaling \$171,617,994 for the design and construction of the Carver-Greenfield sludge dehydration and energy recovery system at the Los Angeles County Joint Water Pollution Control Plant. The Carver-Greenfield facility was constructed but never placed into operation because it was determined to be a failure by EPA, the state, and the grantee. The

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## **Financial Contract Audits**

The EPA OIG provides independent contract audits and financial advisory services to EPA's Office of Acquisition Management (OAM) and to other government agencies at certain government contractors. During this reporting period, the OIG maintained contract audit cognizance for 15 contractors where EPA contracts represent the majority of the contractor's total auditable dollars. We are responsible for performing all contract audits at these contractors including incurred cost audits, proposal reviews, and operations audits. In addition, we provide assistance to OAM in developing negotiation objectives, input for OAM's development of contract related policy, and analyzing of contractor responses to report issues. Presented below are the results of two financial contract audits.

### **Inconsistent Charges to Operational Overhead Pool**

An audit of an incurred cost proposal disclosed inconsistencies in a contractor's charging of costs to the overhead pool. The contractor created a separate overhead pool solely to address the requirements of this particular contract, and treated it as a company-wide pool that included costs for other contracts when the contractor could not directly charge the items. The auditor found that some expenses included in the overhead pool were of the same nature as those allocable as a direct cost on other contracts. Under the Federal Acquisition Regulation (FAR), an indirect cost cannot be allocated to a final cost objective if other costs incurred for the same purpose in like circumstances have been included as a direct cost of that or any other final cost objective. We questioned \$204,079 of the overhead pool pending a determination regarding the allocability of these costs as direct or indirect.

### **Inadequate Supporting Documentation**

An audit of an incurred cost proposal resulted in questioned costs of \$378,000. The auditors found the contractor did not have adequate supporting documentation for \$314,000 of the claimed costs, and the remaining questioned costs were unallowable under the FAR. We also questioned \$133,000 of direct costs including \$62,000 that should have been included as indirect costs. The remaining costs were either unallowable or were not adequately supported.

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## **Contracts**

OCTOBER 1, 1996 THROUGH MARCH 31, 1997



## Section 2 -- Report Resolution

**As required by the Inspector General Act, as amended, this section contains information on reports in the resolution process for the semiannual period. This section also summarizes OIG reviews of the Agency's follow-up actions on selected reports completed in prior periods. In addition, information is presented on the resolution of significant reports issued by the OIG involving monetary recommendations.**

### **Current Period**

- As of March 31, 1997, EPA had 197 OIG reports requiring resolution which was 21 less than the ending balance September 30, 1996.
- The number of past due audit reports, ( reports with no management decision within six months of issuance), increased from 110 to 111. This represented 56 percent of the reports in the follow-up system as of March 31, 1997, compared to 50 percent as of September 30, 1996.

- The costs questioned on the OIG reports for which management decisions were past due as of March 31, 1997, represented 69 percent of total questioned costs to be resolved. This is a 28 percent increase from September 30, 1996.

- As of March 31, 1997, Agency management had not responded to 85 percent (94 of 111) of the past due audit reports. The Office of Acquisition Management, the Grants Administration Division, and Grants Financial Management -Region 3, accounted for over 69 percent (65 of 94) of these.

- About 8 percent (9 of 111) of the past due reports were preaward audits. This is 13 percent improvement over the previous 6-month period. EPA is one of the few agencies that reports on resolution of audits conducted on preaward contract proposals.

### **Trends**

Office of Management Circular A-50, Audit Followup, specifies that audit resolution shall be made within a maximum of six months after issuance of a final audit report.

Our analysis of unresolved reports from October 1, 1995, through March 31, 1997, continued to show a disturbing trend.

The number of non-preaward reports without management decision (180 days past the report issue date) averaged 96 at the end of each reporting period. However, the number of reports for which the Agency had not sent a response to the OIG increased from 73 to 83 percent (72 to 85 reports) as of March 31, 1997.

Audit followup is an integral part of good management. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Agency operations. In an era of tight budgets, limited resources, and rising demand for quality public services, it is crucial that EPA follows up promptly in collecting debts arising from audits. Recognizing that audit followup is a shared responsibility of Agency managers and auditors, we are willing to assist the Agency to quickly resolve open audit reports.

**Status Report On Perpetual Inventory of Reports in Resolution Process For The Semiannual Period Ending March 31, 1997(Dollar Values in Thousands)**

Report Category	No. of Rpts	Report Issuance		Report Resolution Costs Sustained	
		Questioned Costs	Recommended Efficiencies	To Be Recovered	As Efficiencies
A. For which no management decision was made by October 1, 1996	221	\$309,214	\$56,696		
B. Which were issued during the reporting period	228	120,740	1,443		
C. Which were issued during the reporting period that required no resolution	126	0	0		
Subtotals (A + B - C)	323	429,954	58,139		
D. For which a management decision was made during the reporting period	126	39,989	38,120	8,232	5,603
E. For which no management decision was made by the end of the reporting period	197	389,965	20,019		
Reports for which no management decision was made within six months of issuance	111	269,528	18,576		

( Any difference in number of reports and amounts of questioned costs or recommended efficiencies between this report and our previous semiannual report results from corrections made to data in our audit tracking system.)

## Status of Management Decisions on IG Reports

*This section presents statistical information as required by the Inspector General Act Amendments of 1988 on the status of EPA management decisions on reports issued by the OIG involving monetary recommendations.*

*As presented, information contained in Tables 1 and 2 cannot be used to assess results of reviews performed or controlled by this office. Many of the reports were prepared by other Federal auditors or independent public accountants. EPA OIG staff do not manage or control such assignments. Auditees frequently provide additional documentation to*

*support the allowability of such costs subsequent to report issuance. We expect that a high proportion of unsupported costs may not be sustained.*

**Table 1 -- Inspector General Issued Reports With Questioned Costs for Semiannual Period ending March 31, 1997 (Dollar Value in thousands)**

Report Category	Number of Reports	Questioned Costs*	Unsupported Costs
<b>A. For which no management decision was made by October 1, 1996**</b>	<b>87</b>	<b>\$309,214</b>	<b>\$71,267</b>
<b>B. New reports issued during period</b>	<b>46</b>	<b>120,740</b>	<b>49,209</b>
Subtotals (A + B)	133	429,954	120,476
<b>C. For which a management decision was made during the reporting period</b>	<b>25</b>	<b>39,989</b>	<b>13,788</b>
(i)Dollar value of disallowed costs	20	8,232	1,140
(ii)Dollar value of costs not disallowed	18***	31,757	12,649
<b>D. For which no management decision was made by the end of the reporting period</b>	<b>108</b>	<b>389,965</b>	<b>106,688</b>
Reports for which no management decision was made within six months of issuance	64	269,528	58,253

\* Questioned costs include the unsupported costs.

\*\* Any difference in number of reports and amounts of questioned costs between this report and previous semiannual report results from corrections made to data in our audit tracking system.

\*\*\* Five audit reports totaling \$ 11,507 were not agreed to by management.

**Table 2 -- Inspector General Issued Reports With Recommendations That Funds Be Put To Better Use for Semiannual Period ending March 31, 1997 (Dollar Values in Thousands)**

Report Category	Number of Reports	Dollar Value
A. For which no management decision was made by October 1, 1996*	26	\$56,696
B. Which were issued during the reporting period	2	1,443
Subtotals (A + B)	28	58,139
C. For which a management decision was made during the reporting period	18	38,120
(i) Dollar value of recommendations from reports that were agreed to by management	7	5,603
(ii) Dollar value of recommendations from reports that were not agreed to by management	5**	21,052
(iii) Dollar value of non-awards or unsuccessful bidders	9	11,465 ***
D. For which no management decision was made by the end of the reporting period	10	20,019
Reports for which no management decision was made within six months of issuance	8	18,576

\* Any difference in number of reports and amounts of recommended efficiencies between this report and our previous semiannual report results from corrections made to data in our audit tracking system.

\*\* Three reports were included in C(i) and C(ii). Only the related dollars disallowed were included in C(i), whereas the dollars which were not disallowed were included in C(ii).

\*\*\* This amount represents the dollar value of recommendations that funds be put to better use, no dollars shown for management decision on these audits.

<b>Audits With No Final Action As Of 3/31/97 Which Are Over One Year Past OIG Report Date</b>				
Audits	Non Superfund	Superfund	Total	Percent
Programs	46		46	17%
Allegations	5		5	2%
Construction Grants	139		139	50%
Assistance Agreements	13	14	27	10%
Contracts	18	41	59	21%
<b>TOTAL</b>	<b>221</b>	<b>55</b>	<b>276</b>	<b>100%</b>

## Section 3 -- Office of Investigations

### OFFICE OF INVESTIGATION OBJECTIVE, ACTIVITIES, AND MEASURES

**OFFICE OF INVESTIGATIONS OBJECTIVE:** By 2005, increase by 10 % the effectiveness of the Office of Investigations in detecting and deterring fraud and other improprieties, and contributing to the OIG-wide goal of redirecting 10% on indirect resources to direct mission objectives.

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### STRATEGIC ACTIVITIES TO MEET OUR OBJECTIVE

**-Program Integrity Investigations** - Investigations of activities that could undermine the integrity of Agency programs concerning safety and public health, and erode public confidence in the Agency. These cases are initiated in response to allegations or may be self initiated in high-risk areas where there is reasonable suspicion of fraud.

**-Assistance Agreement Investigations** - Investigations of criminal activities related to Agency grants, State Revolving Fund, Interagency Agreements and Cooperative Agreements, which provide assistance to state, local and tribal governments, universities and nonprofit recipients. Collectively these programs account for about half of EPA's budget.

**-Contract and Procurement Investigations** - Investigations involving acquisition management, contracts and procurement practices. We specifically focus on cost mischarging, defective pricing, and collusion on EPA contracts. The decentralized nature of EPA contracting, the complexity of Agency contracting and the lack of a central vendor and subcontractor data base increases the Agency's vulnerability to fraud.

**-Employee Integrity Investigations** - Investigations involving allegations against EPA employees that could threaten the credibility of the Agency.

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## NEW INITIATIVES

**Investigations of Assistance Agreements** - The OIG plans to increase its emphasis on investigations of fraud involving EPA grants and cooperative agreements to colleges and universities, community Technical Assistance Grants, and State Revolving Funds.

**Liaison Activities** - The OIG will increase its efforts to establish strong working relationships with state and local law enforcement officials and environmental program officials. We will also provide fraud awareness briefings with Agency, state, local and other federal officials to foster a strong working relationships and a customer-oriented organization.

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## PERFORMANCE MEASURES/INDICATORS

- Number of assistance agreement and contract cases opened
- Number of indictments and convictions
- Amount of fines, restitutions, civil penalties and recoveries
- Number of suspensions, debarments and other administrative actions
- Improvements made or corrective actions taken because of investigative referrals
- Deterrent effect of investigations.

*The investigative summaries that follow demonstrate how the OIG is implementing its strategic plan to achieve its mission and ultimately helping the Agency achieve its goal of effective management.*

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# Investigative Results

The following is a summary of investigative results during this semiannual reporting period. Investigative activities include investigations of alleged criminal violations which may result in prosecution and conviction, investigations of alleged violations of Agency regulations and policies, and OIG personnel security investigations.

## Summary Of Investigative Activities

Pending Investigations as of September 30, 1996	155
New Investigations Opened This Period	84
Investigations Closed This Period	70
Pending Investigations as of March 31, 1997	169

## Prosecutive and Administrative Actions

In this period, investigative efforts resulted in two convictions and three indictments\*. Fines and recoveries including those associated with civil actions, amounted to \$ 2.9 million. Twenty-four administrative actions were taken as a result of investigations.

Reprimands	6
Resignations/Removals	4
Restitutions	4
Suspensions & Debarment Actions	7
Other	2
Reduced Leave	1
<b>TOTAL</b>	<b>24</b>

\* Does not include indictments obtained in cases in which we provided investigative assistance.

## Profiles of Pending Investigations by Type

General EPA Programs  
Total Cases = 118

Superfund/Lust  
Total Cases = 51

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## Description of Selected Prosecutive Actions

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### Laboratory Executive Sentenced in Waste-dump Scheme

On December 23, 1996, Alan P. Stevens, former chief executive of Stevens Analytical Laboratory in Stoneham, Massachusetts, was sentenced to serve one year and one day in federal prison, ordered to pay \$7,467 in restitution to the victims of his fraud, and assessed a fee of \$50 after pleading guilty to wire fraud. Between May 1993 and 1996, Stevens posed as a representative of an environmental laboratory that collected, tested, and disposed of waste, knowing that such services would not be provided and that reports of such activities would be false and fraudulent. Stevens collected waste materials, some containing Polychlorinated Biphenyls (PCBs), for analysis and prepared a false test report with a fraudulent signature, knowing that the waste materials had not been tested. Stevens, claiming to be working for Alliance Testing and Consulting, contracted to dispose of six 55-gallon drums of waste oil containing PCBs when, in fact, Stevens rented a truck and used it to transport the drums to a highway median area where he abandoned them. At the time, Stevens was under supervised probation for a conviction of falsifying water quality test results for the towns of Lynnfield and Bedford, Massachusetts. *This case was investigated by the EPA OIG, the EPA Criminal Investigative Division, and the Massachusetts Environmental Strike Force.*

### Corporate President Sentenced for Conspiracy

On October 24, 1996, Robert Feller, President of Non Hazardous Incineration (NHI), a non-hazardous waste broker in the State of New Jersey, was sentenced to 5 years probation, fined \$3,000, and assessed a special \$50 fee. In April 1996, Feller pleaded guilty to conspiracy to create and distribute a false approval letter of the EPA.

One of NHI's major clients produced transdermal nicotine patches which, under EPA regulations, are required to be classified as hazardous wastes after the expiration date. Feller contacted a number of people at EPA in order to request that the patches be reclassified as non-hazardous wastes. When EPA refused Feller's request, Feller then conspired to produce a forged letter stating that transdermal nicotine patches are not classified as hazardous wastes. *This investigation was conducted by EPA OIG.*

### EPA Employee Pleads Guilty to Filing False Travel Claim

On January 7, 1997, James Melvin McDuffie, an EPA personnel management specialist, pleaded guilty to submitting a false claim to the government for mileage expenses while on an Intergovernmental Personnel Act assignment. An investigation revealed that McDuffie submitted travel vouchers claiming mileage expenses for travel between his residence and his post of duty at North Carolina A&T University in Greensboro, North Carolina, when he did not report to his post of duty. *This investigation was conducted by EPA OIG.*



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### **Illinois Businessman Pleads Guilty**

On November 14, 1996, David Shewmake, president of Shewmake Insurance Company, Skokie, Illinois, pleaded guilty to making a false statement to influence the award of an EPA-funded asbestos abatement contract.

As previously reported, in 1991, under the Asbestos School Hazard Abatement Act (ASHAA), EPA approved the funding by the Chicago Board of Education for asbestos abatement at Kennedy High School. The Chicago Board of Education solicited bids from contractors to perform the abatement, including required bid bonds frequently accompanied by a power of attorney certifying authorization of an agent to commit the surety to the promises made in the bid bond.

The indictment charged that Loyalty Environmental, Inc., a private company engaged in asbestos removal, submitted a bid package of \$1,444,015 containing a fraudulent bid bond and power of attorney that Shewmake prepared on behalf of Indiana "Lumberman's" Mutual Insurance Company using an embossing device bearing the name of the insurance company from a local printer. *This investigation was conducted by the EPA OIG.*

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### **Company and Officers Indicted for Conspiracy to Defraud EPA and Other Federal Agencies**

On December 18, 1996, Ricards International, Inc. (RII), of Silver Spring, Maryland, and Richard D. Salvatierra, officer and shareholder, were indicted on charges of conspiracy to defraud the United States, false claims, aiding and abetting, and filing a false tax return. Salvatierra was also an officer and shareholder in Potomac Leasing, Inc. (PLI), and controlled the day-to-day operations of that entity. Through PLI, Salvatierra allegedly leased warehouse and office space and then subleased the space to RII at a higher rate. These higher costs were billed to EPA and the Department of Health and Human Service (HHS). Further, as part of the conspiracy, Salvatierra and Edsel Billingsy, former officer at RII and shareholder in PLI, divided the extra funds generated by the inflated costs between themselves by having PLI pay certain personal expenses for Salvatierra and Billingsy and listing those payments as business expenses on Salvatierra's and Billingsy's income tax returns in an effort to conceal their receipt of income from PLI proceeds. On February 7, 1997, Billingsy was indicted on a charge of conspiracy to defraud the United States, for agreeing, obtaining, and aiding in obtaining, payment for false and fictitious claims submitted to the United States, to pay for excess and inflated costs. On March 17, 1997, he pleaded guilty. On January 27, 1997, PLI and Salvatierra were debarred from further participation in Federal assistance, loan, and benefit programs and activities and from government contracting under the Federal Acquisition Regulation for three years measured from March 29, 1994, the date of the initial suspension. *This case was investigated jointly by the EPA OIG, HHS OIG, and the Internal Revenue Service.*

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## Civil and Administrative Actions to Recover EPA Funds

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*Investigations and audits conducted by the Office of Inspector General provide the basis for civil and administrative actions to recover funds fraudulently obtained from EPA. Through the Inspector General Division of the Office of General Counsel, the OIG uses a variety of tools to obtain restitution. These include cooperative efforts with the Department of Justice in filing civil suits under the False Claims Act, the Program Fraud Civil Remedies Act, and other authorities; working with grantees using their own civil litigation authorities; invoking the restitution provisions of the Victim and Witness Protection Act during criminal sentencing; using the Agency's authority to administratively offset future payments and to collect debts; and negotiating voluntary settlements providing for restitution in the context of suspension and debarment actions. Civil and administrative actions to recover funds usually extend over several semiannual reporting periods.*

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### **Company Agrees to \$368,500 Settlement on False Claim Charges**

On January 3, 1997, Sobotka and Company, Inc. (SCI), and three of its officers, agreed to pay the EPA \$368,500 as a civil settlement on charges of making false claims to EPA. In August 1989, EPA contracted with SCI to perform financial, technical, and procedural analyses of energy and environmental programs and policy issues. On October 31, 1995, a complaint was filed in U.S. District Court for the District of Columbia alleging that between November 1989 and November 1991, the defendants had submitted approximately 62 false claims totaling \$246,695. Under the agreement, the defendants satisfied the \$368,500 settlement by forgoing \$310,549 previously billed to EPA under the contract, and paying the government \$57,951 on the date of the agreement. *This case was investigated by EPA OIG.*

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### **EPA Employee Repays \$24,000 in Settlement on Improper Education Expenses**

On December 23, 1996, Jesse MacArthur Long, an EPA employee, entered into a settlement agreement with EPA and the United States Attorney's Office, District of Montana, to resolve a civil complaint charging that Long had used an Intergovernmental Personnel Act (IPA) assignment at Montana State University (MSU) to earn a Ph.D. degree at taxpayer expense without proper authorization. Under the settlement agreement, Long agreed to reimburse the United States \$24,000 for education-related expenses. This case originated when an OIG audit and investigation revealed that Long attended MSU on a full-time basis for the two years of the IPA assignment, charging all education expenses to EPA under a cooperative agreement for scientific research. *This investigation was conducted by EPA OIG.*

### **Bankrupt Contractor Pays \$100,000 Settlement on Mistaken Receipts**

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### **Clean-up Company Settles for \$38,000**

Department of State (DOS) also mistakenly paid \$204,644 to Stephens Engineering. Stephens Engineering deposited the funds into its operating account which were disbursed against company obligations. Stephens Engineering subsequently filed for bankruptcy.

*This case was investigated jointly by EPA OIG and DOS OIG.*

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### **Contractor Agrees to Fund Up to \$2.4 Million Additional Clean up Costs**

On January 31, 1997, OHM Remediation Services Corporation, for itself and its predecessor companies agreed to pay the government \$38,000 to resolve disputed claims arising from invoices that OHM Remediation submitted to EPA from January 1, 1990 through December 21, 1995, for cleanup or remediation services on seven contracts. The contracts and the Federal Acquisition Regulation required that OHM Remediation include in each invoice only those subcontractor and vendor charges that it had actually paid at the time the invoices were submitted to the government. After an inquiry, OHM Remediation disclosed that it had submitted invoices to EPA under the contracts that included subcontractor and/or vendor charges which had not been paid at the time of submission. *This investigation was conducted by EPA OIG.*

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CDM Federal Programs Corporation agreed to a \$2.4 million administrative settlement with the EPA in response to allegations associated with the clean up of the Asbestos Dump Site in Meyersville, New Jersey. CDM was contracted by EPA to perform the \$8 million clean up of the site which is a residential area adjacent to the Great Swamp National Wildlife Refuge. The contract required CDM to remove soil contaminated with asbestos and replace it with clean fill.

After completion of the clean up, the EPA OIG investigated allegations that the soil installed to replace the asbestos contaminated soil was obtained from a hazardous waste site being cleaned up under the New Jersey State Environmental Cleanup Responsibility Act. EPA concluded after examining the soil that it did not meet the contract specifications because it contained debris and chemical contaminants at levels not acceptable for use at the site.

The agreement requires the EPA contractor to pay up to \$2.4 million in clean up costs for the removal and disposal of the defective backfill, the installment of clean fill, and the performance of any additional asbestos work at the site. *This case was investigated by EPA OIG.*

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On January 14, 1997, in the United States Bankruptcy Court for the District of Maryland, Merrill Cohen, trustee for the estate of Stephens Engineering Co., Inc., settled outstanding debts with the United States by agreeing to pay \$100,000. An investigation revealed that an invoice payment in the amount of \$468,910 was mistakenly paid to Stephens Engineering, instead of to its financial assignee. Further, the

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*EPA's policy is to do business only with contractors and assistance recipients who are honest and responsible. EPA enforces this policy by suspending or debaring contractors, assistance recipients, or individuals within those organizations, from further EPA contracts or assistance if there has been a conviction of, or civil judgment for, specific offenses, including the commission of any offense indicating a lack of business integrity or business honesty that seriously and directly affects the present responsibility of an entity or individual. An entity or individual may also be debarred for any other cause of so serious or compelling a nature that it affects its present responsibility. Debarments are to be for a period commensurate with the cause, but generally do not exceed 3 years.*

*The EPA Suspension and Debarment (S&D) Division in the Office of Grants and Debarment operates the S&D program at EPA. The OIG assists the EPA S&D program by providing information from audits, investigations, and engineering studies; and obtaining documents and evidence used in determining whether there is a cause for suspension or debarment.*

*The actions summarized below resulted from OIG investigations:*

- On October 1, 1996, EPA suspended Loyalty Environmental, Inc. (Loyalty), of Skokie, Illinois, a private company engaged primarily in asbestos abatement; William Foss, the firm's president; Eau Claire Mechanical Insulation, Inc. (ECMI), of Orland Park, Illinois, a building insulation subcontractor for Loyalty; Michael Cahill, an ECMI estimator and salesman; and David J. Shewmake, president of Shewmake Insurance Company. The suspension actions were based on the May 2, 1996, indictments of Foss, Cahill, and Shewmake which each was charged with making false statements and conspiracy.

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- On January 27, 1997, EPA issued notices of proposed debarment to LNS Environmental Services, Inc. (LNS), of Richardson, Texas, and its president, Niranjana G. Shah. An OIG investigation revealed that LNS used improper testing methods, falsified data, and illegally disposed of hazardous waste samples under the direction of Shah. LNS, formerly Gymnurs Laboratories, Inc., had been awarded a special analytical services subcontract under EPA's Contract Laboratory Program.

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## **Selected Suspension and Debarment Actions**

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Remediation Services, Inc. (OHM), EPA's prime contractor hired EWT to transport hazardous waste to two approved landfills in Detroit, MI, and Wyandotte, MI. Waste sent to Detroit was rejected by the landfill since it was not approved for that particular site. An EWT employee, acting independently, created and signed the OSC's name to the new manifest so that the rejected material could go to another landfill. EWT reprimanded the EWT employee, OHM suspended business with EWT, and EWT employees were retrained in subcontract compliance. As part of the compliance agreement, EWT will make changes in company policies and procedures to prevent reoccurrences of the events. In consideration of EWT's compliance with the terms and conditions of the agreement, EPA will not initiate any suspension or debarment action in conjunction with the forgery. Both EPA and EWT agree that the improper manifesting as a possible cause for debarment and EPA may initiate suspension and/or debarment proceedings against EWT if there is a material breach of this agreement.

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- On December 5, 1996, EPA signed a compliance agreement with Environmental Waste Technology, Inc. (EWT), following an OIG investigation of an allegation that an On Scene Coordinator's (OSC) signature was forged on two manifests used to transport hazardous waste from a cleanup site to an unintended landfill. OHM

## Section 4 -- Office of Management

### OFFICE OF MANAGEMENT OBJECTIVE, ACTIVITIES, AND MEASURES

**OFFICE OF MANAGEMENT OBJECTIVE:** Support OIG performance by effectively planning, applying, and reporting to Congress fiscal, human and technical resources use, and by redirecting 10% of OIG-wide indirect resources to direct mission objectives.

#### STRATEGIC ACTIVITIES TO MEET OUR OBJECTIVE

**-Strategic and Financial Planning, Execution and Reporting** - Activities to develop strategic and performance plans, budgets and reports in compliance with the GPRA that clearly link all resources to organizational objectives and results. Providing sound fiscal controllership to ensure accountability for effective decision making and the best application of resources to meet mission objectives.

**- Human Resource Management** - Activities to provide a fully staffed, highly qualified, and culturally diverse work force supported by appropriate and efficient administrative services to maximize application of OIG staff time on direct mission work.

**-Information Resources Management** - Development, acquisition, implementation, application and management of comprehensive technical information resources providing better cheaper and faster communications and product quality, improving OIG efficiency and its value to the Agency.

**-Hotline and Fraud Prevention Activities** - Activities to promote employee and contractor awareness to improprieties and deter possible fraud and wrongdoing, and encourage employees and the public to report possible instances of fraud, waste and mismanagement.

**-Personnel Security Activities** - Initiating and arranging for background investigations and National Agency Checks and Inquiries of current and prospective EPA employees and contractors, and evaluating the results to determine if suitability and security requirements are met to reduce risk and protect the integrity of the EPA programs and operations.

**-Legislative/Regulation Review & Congressional Reporting** - Reviews and evaluations of Agency and related legislation and regulations to identify possible weakness, duplications, risks and opportunities for improvements and savings. Also, activities relating to IG Act reporting requirements to, and communication with Congress and the Administrator.

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## NEW INITIATIVES

**-Integrated Management Information System-** The OIG will complete initial work and implement a comprehensive management information system that will streamline many mission and administrative functions, helping the OIG to meet its objectives of increasing its performance by 2005.

**-Redirecting resources to direct mission objectives.** - The OIG, organization wide, will redirect at least 10 % of its resources now invested in management and administrative functions for application to direct auditing, review, consulting and investigations work.

**-Implementing GPRA Requirements** - The OIG will continue its initial work to closely align its strategic plans and organizational objectives with those of the Agency and to develop budgets, manage resources and report on results, providing a clear picture of the OIG's return on the investment.

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## PERFORMANCE MEASURES/INDICATORS

- Clear, well supported plans, budgets and reports providing 100 percent accountability of resources.
- Fully staffed, well qualified, culturally diverse workforce.
- Comprehensive plans and actions to use information technology to improve efficiency.
- Quality of recommendations for changes to legislation and regulations.
- Clear, accurate, timely, complete and informative reports to Congress.
- Administrative actions resulting from Personnel Security activities.
- Impact of Hotline complaints resolved.

*The Management summaries that follow demonstrate how the OIG is implementing its strategic plan to achieve its mission and ultimately helping the Agency achieve its goal of effective management.*

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# Fraud Prevention And Management Improvements

This section describes activities of the Office of Inspector General to promote economy and efficiency and to prevent and detect fraud, waste, and abuse in the administration of EPA programs and operations. This section includes information required by statute, recommended by Senate report, or deemed appropriate by the Inspector General.

## Review of Legislation and Regulations

*Section 4(a)(2) of the Inspector General Act of 1978, as amended, directs the Office of Inspector General to review existing and proposed legislation and regulations relating to Agency programs and operations to determine their effect on economy and efficiency and the prevention and detection of fraud and abuse. During this semiannual period, we reviewed three legislative and 38 regulatory items. The most significant items reviewed are summarized below.*

### Proposed Rule Under Federal Acquisition Regulation (FAR) Case 95-022

We were concerned that the proposed rule did not completely reflect the recommendation by the Office of Management and Budget (OMB) report, Interagency Task force Report on the Federal Contract Audit Process, to expand the FAR in recognizing that other agencies may have audit cognizance in addition to Defense Contract Audit Agency.

We also commented that the proposed rule did not clearly describe the relationships among the Cognizant Federal Agency, the Contract Administrative Office, and the Contracting Officer; nor clearly define the parties' individual duties and responsibilities.

Finally, we noted that none of our previously recommended revisions to the proposed rule under FAR Case 95-017 affecting FAR Case 95-022 were incorporated, and we strongly recommended that they should be.

At the end of the semiannual period, a decision on this FAR case had not been issued.

## Contracts Management Manual Chapter 17

This chapter is designed to strengthen EPA's monitoring of contractor performance. We recommended that the chapter:

- require completion of the Agency's annual and final performance reports within a certain time from the contract's anniversary or closing date,
- instruct the Contracting Officer to contact the cognizant auditor before providing a recommended rating for the business-relations category,
- refer to "incurred cost submission," rather than "indirect cost rate proposal," since both direct and indirect costs need to be audited.
- include the contractor's responsiveness to audit report recommendations and auditors' requests for information as additional rating elements, and
- delete language erroneously implying that the Contracting Officer has direct authority over the Project Officer.

At the end of the semiannual period, the Agency had not issued a revised document.

## EPA's Working Capital Fund (WCF) Policies and Procedures

We noted that the document did not expressly address the issue of accountability and recommended that it be revised to indicate that all WCF financial management activities will be conducted at the highest level of integrity through full disclosure of current and accurate financial information, along with complete records of correspondence and decisions. Also, all WCF actions and financial activities should be subject to independent review and audit either directly by, or under the supervision of, the Office of Inspector General.

We also expressed concern that the document did not discuss the role of the Comptroller, specify who approves rates, or describe how the Chair of the WCF Customer Advisory Group is selected.



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The Office of the Comptroller revised EPA Order 2570.1 to our satisfaction by expanding the discussion of accountability and clarifying roles. A related document discusses the role of the Comptroller..

### **Draft EPA Guidelines for Use of Government Purchase Cards**

While we agreed that the document was comprehensive and well-organized, we stated that additional precautions should be taken to help provide program integrity. Specifically, since credit card purchases are designed to be made over the telephone for as much as \$2,500 for a single purchase, we recommended that the Agency screen all potential Government Purchase Card Holders to certify their integrity and suitability. In our opinion, preappointment checks (i.e., review of security forms and Office of Personnel Management, Federal Bureau of Investigation, and credit checks) prior to placement and a Minimum Background Check after placement should be mandatory.

At the end of the semiannual period, the Agency had not issued a revised document.

### **EPA Training and Learning Delegation**

We did not concur with the proposed delegation of authority because the Director of the EPA Learning Institute appeared to have the authority to select, appoint and terminate all Training Officers, including those in the Office of Inspector General (OIG). In our view, this would infringe upon the OIG's independent status. Accordingly, we recommended that the delegation be revised to specify that the Inspector General (IG), or his/her designee, has sole authority for these duties, except to the extent the IG delegates his/her authority to the Agency.

We also recommended that Training Officers be given instruction in pertinent areas of financial responsibility since they will be authorized to obligate Government funds.

The Agency revised the delegation to clarify the IG's authority and indicated that the Training Officers would receive financial-related training.

### **Streamlining OIG Policy Directives**

The EPA OIG has been aggressively working to streamline its internal policy guidance by more than 50 percent as part of its administrative reforms initiative, and is achieving a high level of success. While this process is ongoing, the following are several examples of the successes we have achieved so far. The Office of Audit has reduced its number of Manual Chapters from 21 to 9, eliminating over 80 percent of the initial number of pages. The Office of Management will reduce the number of Manual Chapters from 20 to 13, eliminating unnecessary policy guidance and allowing staff to use innovative methods to achieve results. This work is continuing along with other administrative reforms to improve the efficiency of the OIG.

### **Strategic Planning Leads The Way**

As part of the EPA OIG preparations for planning, budgeting, and reporting under the requirements of the Government Performance and Results Act (GPRA), the EPA OIG published its first comprehensive Strategic Plan in December 1996, to set the direction of the OIG activities for the next five years. This plan describes the vision, mission and goals of the OIG and articulates how we will measure our performance. The plan establishes the perspective by discussing the OIG organization as it is, where it has come from, and where it is going with prospective new initiatives. It also describes the accomplishments, changes and future risks associated with specific Agency programs, and creates a framework for consistent planning, budgeting and reporting to be used in reinventing the organization and integrating our work with the Agency's objectives.

We have also worked closely with EPA in formulating an Agency-wide process and architecture for integrating planning, budgeting, accounting, measurement, and reporting compliance with the GPRA. The OIG is concurrently reformulating its processes and structure as well, to fit within the Agency structure. We have restructured this OIG Semiannual Report to Congress to align with the activities described in the OIG Strategic Plan, and the OIG goals and objectives. This approach demonstrates how the results of our work are linked to our mission, goals

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## **OIG Management Initiatives**

and objectives, and contribute to the attainment of the Agency's goals and objectives.

### **Assistance to the Office of Acquisition Management**

One EPA-OIG audit office provided extensive support to OAM in the development of the Government's negotiating position. At OAM's request the OIG reviewed and analyzed the contractor's response to an incurred cost audit report and provided input for the Government to consider in developing the negotiation objectives. This will improve the negotiation process by resolving discrepancies between the report and the contractor's response prior to the negotiation with the contractor.

### **Expense Allocation and Property Assistance Projects**

During audits of EPA's financial statements for fiscal 1995, the OIG identified weaknesses in the areas of allocating expenses and accounting for and controlling property. The OIG worked jointly with EPA to identify ways to correct these problems. We recommended revisions to the Agency's allocation procedures to ensure that Superfund support costs were not double-counted and that adequate supporting documentation was maintained for allocated expenses. Also, we evaluated EPA's inventory process to verify the existence of property items, and sampled property items to determine if their costs were properly reflected in the Agency's accounting records. Based on this assistance, the Agency made changes in its procedures for the fiscal 1996 financial statements.

### **Increasing Competition in EPA Contracting**

In a novel approach to evaluate options to increase competition in EPA contracting and to identify industry practices which might negatively affect competition, the Office of Acquisition Management and the U.S. Department of Justice, Antitrust

Division and Economic Analysis Group, are working together to review EPA procurement procedures. The review is an outgrowth of an investigation by the OIG that identified a practice in which bidders on EPA contracts established 'exclusive agreements' with their proposed subcontractors. As a condition of the 'exclusive agreements', the subcontractors agreed not to submit proposals in support of other competitors for the same contract. The use of such agreements, previously unknown by the EPA, appeared to potentially impact competition on EPA contracts by limiting the availability of qualified subcontractors.

### **Committee on Integrity and Management Improvement**

*The Committee on Integrity and Management Improvement (CIMI) was established in 1984 by EPA Order 1130.1 to coordinate the Agency's effort to minimize the opportunities for fraud, waste, and mismanagement in EPA programs and activities. CIMI strives to continually increase employee awareness and understanding of various Agency policies and procedures. The Committee is composed of senior EPA program and regional officials and is chaired by the Inspector General.*

### **Prospective, Outside, and Post-Employment**

CIMI developed an informational leaflet to provide EPA personnel with a summary of the restrictions on outside employment and post-employment and to heighten employee awareness of potential improprieties.

In view of current efforts to reduce the size of the Federal work force, many employees are reassessing their career goals and need guidance to avoid potential conflicts of interest. The rules regarding prohibited activities after leaving Federal service and those governing outside employment and teaching, speaking, and writing while a Federal employee are designed to guard against conflicts of interest which may bring into question the propriety of Federal actions. The rules are complex and violators are subject to a wide range of penalties, including criminal sanctions. Therefore, Federal employees who plan to seek employment in the private sector or engage in outside employment should become familiar with the restrictions.

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## Travel Bonuses

CIMI developed an awareness leaflet to provide answers to commonly asked questions regarding the "ownership" of frequent flyer awards, promotional material, and other compensation earned by employees while traveling on official Government business. The leaflet emphasizes that misuse of frequent traveler benefits and other travel bonuses is misuse of Government property, and makes it clear that any benefits a Federal employee receives from travel services paid for by the Government are government property and may only be used on future official travel.

EPA encourages employees who travel on official business to participate in frequent traveler programs. As membership in frequent traveler programs has increased, so has the potential for abuse, particularly among employees who are not aware of Agency policy regarding official travel.

The document stresses that the policies described therein are applicable at the time of issuance. It warns that policies in this area frequently change, and advises readers to seek advice from their ethics officials or the Agency's finance office if they have any questions regarding travel benefits.

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## Hotline Activities

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The OIG Hotline opened five cases and completed and closed five cases during the reporting period. Of the cases closed, two resulted in environmental, prosecutive, or administrative corrective action. Cases that did not have immediate validity due to insufficient information may be used to identify trends or patterns of potentially vulnerable areas for future review. At the end of this semiannual reporting period, 32 Hotline cases were open.

The following is an example of corrective action taken as a result of information provided by the OIG Hotline.

A complainant alleged certain environmental violations by Spectra, Inc. of Clarksburg, Maryland, particularly involving the company's wastewater treatment operations. As a result of an investigation by EPA's Criminal Investigations Division, Region 3 issued a \$30,250 administrative penalty against Spectra for Clean Water Act violations.

## Appendix 1 -- Reports Issued

### Audit Reports Issued October 1, 1996 to March 31, 1997 (Dollars in Thousands)

Type of Review	Number of Reports	Costs Ineligible	Costs Unsupported	Costs Unnecessary/ Unreasonable	Funds to be Put to Better Use
<b>Program Audits</b>	24				
<b>Financial Statement</b>	2				
<b>Assistance Agreement Audits:</b>					
Construction Grants	19	\$ 57,922	\$ 48,988	\$ 10,998	
Single Audit Act Audits	34	1,507	6		
Other	4	23	113		
<b>Contract Audits:</b>					
Preaward	22				\$ 1,443
Incurred Costs/ Other	123	\$ 1,080	\$ 101		
<b>TOTALS</b>	<b>228</b>	<b>\$ 60,532</b>	<b>\$ 49,208</b>	<b>\$ 10,998</b>	<b>\$ 1,443</b>

A complete listing of each report issued during the reporting period and dollar value of questioned costs and the dollar value of recommendations that funds be put to better use is available upon request from the OIG at (202) 260-4912.

## Appendix 2 -- Reports Issued Without Management Decision

### Reports Issued Without Management Decision - 180 Days Past Report Issue Date

Action Official	Over 6 Months Less Than 1 Year	Over 1 Year Less than 3 Years	Over 3 Years	Total
Grants Administration Division	2	7		9
Office of Acquisition Management (OAM)	1			1
OAM Contract Mgmt Division RTP	10	5		15
OAM Cost Advisory - WCAB	5	2		7
OAM Cost Advisory - FAB	8	17		25
OAM Cost Advisory - CPRN	3	7	2	12
Chief Financial Officer	1			1
Asst Administrator for Air & Radiation	2			2
Asst Administrator for Adm & Resources Mgmt	2	4		6
Regional Administrator Region 1	1			1
Regional Administrator Region 2	1	3		4
Grants Financial Mgmt Region 3	8	2		10
Regional Administrator Region 4	1	4		5
Grants Financial Mgmt Region 5			1	1
Regional Administrator Region 6		2		2
Regional Administrator Region 8	1	2		3
Regional Administrator Region 9	3	1		4
Regional Administrator Region 10	2		1	3
<b>TOTALS</b>	<b>51</b>	<b>56</b>	<b>4</b>	<b>111</b>

**Reports Issued Without Management Decision - 180 Days Past Report Issue Date**

<b>Action Official</b>	<b>No Response Received</b>	<b>Response In Review Process</b>	<b>Inadequate Response</b>	<b>Appeal to ARB</b>
Grants Administration Division	8		1	
Office of Acquisition Management (OAM)	1			
OAM Contract Mgmt Division RTP	10	5		
OAM Cost Advisory - WCAB	5	2		
OAM Cost Advisory - FAB	23	1	1	
OAM Cost Advisory - CPRN	9	2	1	
Chief Financial Officer	1			
Asst Administrator for Air & Radiation	2			
Asst Administrator for Adm & Resources Mgmt		5	1	
Regional Administrator Region 1			1	
Regional Administrator Region 2	3	1		
Grants Financial Mgmt Region 3	10			
Regional Administrator Region 4	4	1		
Grants Financial Mgmt Region 5				1
Regional Administrator Region 6	2			
Regional Administrator Region 8	3			
Regional Administrator Region 9	4			
Regional Administrator Region 10	2	1		
<b>TOTALS</b>	<b>94</b>	<b>11</b>	<b>5</b>	<b>1</b>

A summary of each report issued before October 1, 1996, for which no management decision has been made by March 31, 1997, an explanation of the reasons, and a statement concerning the desired timetable for achieving management decision is available upon request from the OIG at (202) 260-4912.

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## OIG MAILING ADDRESSES and TELEPHONE NUMBERS

### OIG HOTLINE (202) 260-4977

#### Headquarters

Environmental Protection Agency  
Office of Inspector General  
401 M Street, S.W. (2441)  
Washington, DC 20460  
(202) 260-3137

#### Atlanta

Environmental Protection Agency  
Office of Inspector General  
16th Floor-100 Alabama St. SW  
Atlanta, GA 30303  
Audit: (404) 562-9830  
Investigations: (404) 562-9857

#### Boston

Environmental Protection Agency  
Office of Inspector General  
JFK Federal Building (OIG)  
(office at 1 Congress St)  
Boston, MA 02203  
Audit: (617) 565-3160  
Investigations: (617) 565-3928

#### Chicago

Environmental Protection Agency  
Office of Inspector General  
77 West Jackson Boulevard  
13th Floor (1A-13J)  
Chicago, IL 60604  
Audit: (312) 353-2486  
Investigations: (312) 353-2507

#### Cincinnati

Environmental Protection Agency  
Office of Inspector General  
MS : Norwood  
Cincinnati, OH 45268-7001  
Audit: (513) 366-4350  
Investigations: (312) 353-2507 (Chicago)

#### Dallas

Environmental Protection Agency  
Office of Inspector General (EOIG)  
1445 Ross Avenue, Suite 1200  
Dallas, TX 75202-2733  
Audit: (214) 865-6621  
Investigations: (404) 562-9857 (Atlanta)

#### Denver

Environmental Protection Agency  
Office of Inspector General  
999 18th Street, Suite 500  
Denver, CO 80202-2405  
Audit: (303) 312-6872  
Investigations: (312) 353-2507 (Chicago)

#### Kansas City

Environmental Protection Agency  
Office of Inspector General  
726 Minnesota Avenue  
(office at 630 Minnesota Ave)  
Kansas City, KS 66101  
Audit: (913) 551-7878  
Investigations: (312) 353-2507 (Chicago)

#### New York

Environmental Protection Agency  
Office of Inspector General  
290 Broadway, Room 1520  
New York, NY 10007-1866  
Audit: (212) 637-3080  
Investigations: (212) 637-3041

#### Philadelphia

Environmental Protection Agency  
Office of Inspector General  
841 Chestnut Street, 13th Floor  
Philadelphia, PA 19107  
Audit: (215) 566-5800  
Investigations: (215) 566-2361

#### Research Triangle Park, NC

Environmental Protection Agency  
Office of Inspector General  
Catawba Building  
Highway 54, Mail Drop 53  
Research Triangle Park, NC 27711  
Audit: (919) 541-2204  
Investigations: (919) 541-1027

#### Sacramento

Environmental Protection Agency  
Office of Inspector General  
650 Capitol Mall, Suite 6309  
Sacramento, CA 95814  
Audit: (916) 498-6530  
Investigations: (415) 744-2465 (SF)

#### San Francisco

Environmental Protection Agency  
Office of Inspector General  
75 Hawthorne St (I-1)  
19th Floor  
San Francisco, CA 94105  
Audit: (415) 744-2445  
Investigations: (415) 744-2465

#### Seattle

Environmental Protection Agency  
Office of Inspector General  
1111 3rd Avenue, Suite 1460  
Seattle, WA 98101  
Audit: (206) 553-4033  
Investigations: (206) 553-1273

# GET A HOLD ON SPENDING



## REPORT FRAUD, WASTE, OR ABUSE TO THE INSPECTOR GENERAL HOTLINE

● INFORMATION IS CONFIDENTIAL

### 202-260-4977